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ECONOMIC INTELLIGENCE SERVICE

WORLD ECONOMIC SURVEY

FIFTH YEAR

1935/36

LEAGUE OF NATIONS
GENEVA
1936

Publications of the Economic Intelligence Service of the League of Nations

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WORLD PRODUCTION AND PRICES.

REVIEW OF WORLD TRADE.

BALANCES OF PAYMENTS.

INTERNATIONAL TRADE STATISTICS.

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World Economic Survey, 1935/36

CORRIGENDA

Page 82, 12th line . .	Argentine should be omitted, as it is not included in the diagram.
„ 135, Table . . .	National Unemployment Statistics at the end of March in the years 1929 and 1932-1936: footnote [c] for Germany 1934 refers to 1935.
„ 226, Table . . .	Expenditure on Armaments: footnote [b] for Roumania should be omitted.
„ 235, Table . . .	Public Debt in certain countries at the end of the financial year: Czechoslovakia 1935 — for 409,337 read 40,934. Sweden 1936 — for 23.795 read 2,380.

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WORLD ECONOMIC SURVEY

Fifth Year

1935/36

PREFACE.

The present *Survey* has been prepared by Mr. J. B. Condliffe, of the Economic Intelligence Service of the League of Nations. It is the fifth of an annual series undertaken in consequence of resolutions passed by the Assembly of the League in 1930 and 1931.

While this present work by Mr. Condliffe is based mainly on the other publications of the Economic Intelligence Service, valuable assistance has been obtained from other sources and particularly from the International Labour Office. The book is intended to present an account of recent developments intelligible to the lay reader. For more detailed information, the reader should refer to the other publications of the Service, a list of which is given on page 2.

Throughout this volume, as in other publications of the Economic Intelligence Service, the sign "—" indicates that the figure is nil or negligible, "..." that the figures are not yet published, and "." that information is not available or is non-existent. World and continental tables contain, as a rule, estimated figures for countries for which information was not available, so that they are complete and therefore comparable from year to year.

A. Loveday,

Director of the Financial Section
and Economic Intelligence Service.

Geneva, August 15th, 1936.

Chapter I.

THE PROGRESS OF RECOVERY.

The International Setting.

The *World Economic Survey* is primarily a record of economic fact. Year by year an attempt is made to describe and measure the changing organisation of industry and commerce in the world as a whole. The present volume is the fifth of the series. The first, written in the early part of 1932, at the depth of the great depression, was defined as " an endeavour... to deal, not so much with the policies of Governments, or even of commercial, financial and industrial institutions, however important, as with the confused and multitudinous activities of the peoples of the world in their everyday struggles for livelihood ". Each year has since presented a different set of problems to analyse and developments to describe. Indeed, the rapidity of change in this period has been bewildering. The world of 1935/36 is vastly different in economic outlook and political temper from that of 1931/32. During this short space of five years, the first Soviet plan of industrial development has been completed and a new plan begun. In the Far East, Japan has launched a campaign of trade expansion and has pushed forward her manufacturing development. The United Kingdom, Belgium and the Netherlands have joined the ranks of protectionist countries, and a network of trade restrictions of unprecedented strength and complexity has been spread over an increasing proportion of the world's trade. At Ottawa in 1932, not only the British Dominions, but the colonies also were drawn into closer economic relations with the mother-country, and, in 1935 at Vincennes, an effort was made to do the same for the French Colonial Empire. With the departure of the United Kingdom from the gold standard in September 1931, the central prop of the former international monetary system snapped, and the subsequent years saw first a series of consequential currency dislocations and then the slow approach to more limited and as yet precarious international equilibrium. Reparation payments ceased after the Lausanne Conference in 1932, and, except for Finland, war-debt payments have been in suspense since 1933. A great part of the international commercial and public-debt payments has also been paralysed. In the United States and in many other countries, extensive recovery programmes have been launched and in all but a very few countries there has been a considerable cheapening of interest rates. As a result of current financial and monetary policies, there has been a striking increase of gold production and monetary gold reserves and the foundation has been laid for a very considerable credit expansion.

Even this bare recital of some leading economic events is sufficient to suggest the magnitude of the changes that have taken place. Account must be taken also of the economic consequences of political developments in this period. When the first *Survey* was being written at the beginning of 1932, the crushing effect of successive economic and financial crises tended to overshadow political problems nationally and internationally. There were even hopes, which seemed to be warranted by the successful issue of the Lausanne Conference, that economic stress was driving the nations to closer co-operation. It is, indeed, more than a coincidence that, in the world as a whole, economic indices began to improve from the middle of 1932. Not only was there a settlement of the reparation problem, but there was also some expectation of war-debt settlement, and definite plans were made for calling a Monetary and Economic Conference. The Conference for the Reduction and Limitation of Armaments that had been in preparation for many years opened in 1932 also. Even at that time, however, the Manchurian situation was developing into a grave international dispute, and, with the failure of the great conferences that had been called, the international political situation rapidly deteriorated. First Japan and then Germany left the League. A prolonged war in South America had barely come to an end when the dispute between Italy and Ethiopia developed into a crisis that evoked the first use of economic sanctions.

During the period covered by this *Survey* there has been a rapid succession of dramatic political events. In the Far East, frontier incidents involving Japan and the Union of Soviet Socialist Republics have increased in frequency along the boundary between Manchuria and Mongolia, while Japanese policy has been active in the Northern Provinces of China. The Italian invasion of Ethiopia, which began on October 3rd, 1935, has continued without interruption, despite a virtually universal arms embargo and the invocation of widespread financial and economic sanctions against Italy. As these lines are being written in March 1936, a new and fateful phase of international politics has been opened by the German denunciation of Locarno, reoccupation of the Rhineland and offer of negotiations for a new settlement. Austria has introduced compulsory military and labour service. Turkey has opened negotiations to regain her right to fortify the Dardanelles.

The political aspects of all these great problems have no place in an economic survey; but no such survey would be realistic if it did not take into account their economic consequences.

In practically every country, economic activity has begun to be affected by the increase of armament expenditures. Warfare steadily extends its scope as armies are mechanised and made dependent upon specialised industrial and scientific support. Defence plans, therefore, inevitably take the form of industrial as well as military preparedness for mobilisation. The training of personnel must be supplemented by adequate equipment, and such equipment becomes more and more elaborate. Navies still rest upon great battleships, which require not only extensive materials but also adequate docks and supplies. Armies need heavier artillery, but, in addition, depend upon tanks, mechanised transport, stores, munitions and petrol. Aeroplanes require landing-grounds and factories. The increasing use of motor vehicles to supplement railways demands the construction of adequate roads. It is obvious, therefore, that armament expenditures must directly influence production and employment. Indeed, the conditions of modern warfare demand nothing less than the capacity for rapid and complete mobilisation of the whole industrial organisation for military purposes.

Since armament expenditures are directed in this way largely to the extension of heavy industries, such as iron and steel, engineering and shipbuilding, they naturally increase investment and employment opportunities. Economic activity and even prosperity are stimulated, at least for a time, especially when hitherto unused credit resources are drawn upon for such expenditure. It may, indeed, be argued, and has been argued, that the immediate effects of this sort of stimulation increase national wealth in greater degree by their indirect than by their direct effects.[1] Apart, however, from the explosive possibilities of armaments, most economists look askance at the longer-run consequences of distorted production, capital wastage and financial difficulties inherent in such methods of providing employment. Whatever the future may hold in these respects, there can be no doubt that the injection of rearmament expenditures into the economic system has in many countries temporarily stimulated precisely those industries where investment and employment were most depressed in 1932.

---

[1] J. M. KEYNES: " The General Theory of Employment, Interest and Money' ', London, 1936, pages 128-131.

There is one other very important preliminary point that must be stressed in this connection. The five years that have elapsed since the first *Survey* was written have seen a notable increase in the influence of Government policies upon economic activity. In all but a comparatively few countries, it is still true that the economic system functions largely in response to individual and group initiative. Everywhere, however, the scope of such initiative rapidly narrows. Industrial, financial and trading groups grow larger and more powerful. Economic life becomes institutionalised and individual choice is more and more limited. Governments intervene more strongly and continuously and extend their intervention to new aspects of economic and financial activity.

In this respect, the current of social intervention has been strongly reinforced by the national apprehensions that have arisen from the disquieting international situation. Public opinion, already habituated to the increasing use of Government powers for social purposes, moves rather readily to support their further extension upon national grounds. Indeed, such a distinction is not always easy to draw. Thus, the motives of social security and national defence are mixed — for example, in policies aiming at rapid industrial development in backward countries, at increasing agricultural self-sufficiency in industrial areas, and at the relief of employment by the encouragement of essential industries for national defence.

The development is clearest in countries controlled by authoritarian Governments. In them, the needs and purposes of the all-powerful State tend to take precedence over individual desires and the machinery of government is effective in establishing their precedence. The control exercised by public discussion is largely eliminated where political liberties are subject to continuous and effective control.

In such controlled and regulated economies, the corrective and recuperative forces inherent in a system of free enterprise tend to be choked. On the contrary, the control of economic activity is often directed less to the satisfaction of individual needs than to the achievement of other non-economic purposes.

It is against this background of social and political change that the economic phenomena recorded in later chapters must be studied. Recovery is proceeding in many countries, but is uneven and largely confined within national markets. It is conceivable that, in due time, the national recoveries will overflow these markets and that uneven national price changes may eventually establish a new equilibrium. Indeed, there has already been some increase of international trade and the sterling-dollar-franc exchanges have remained steady during the past year. But there is clearly a disposition to await events rather than to press forward with international economic reorganisation.

Meantime, pressures accumulate and it is an open question whether they may not cause further dislocations before a new equilibrium can be established by the slow working of economic forces. Behind many of these pressures lie uneven rates of population increase. Migration has virtually ceased and vicarious migration by which the products of labour are exported rather than the labour itself is confined by trade restrictions.

The attempts to find national solutions of such urgent problems by an expansion of the domestic market run the risk of monetary and financial breakdown. It would be invidious to state this risk as applying to any particular country; but no one who studies present economic conditions can long remain unaware of the dangerous possibilities that exist.

For the time being at least, the international solution has seemed impossible of direct attainment. Within certain limits, there have been approaches toward it. Over a large part of the trading world, especially within the so-called sterling area, the exchanges have now been stable for some years. There is steadily increasing prosperity in most of the raw-material-producing countries. The improvement in these great areas of South America, the British Dominions, India and most of the tropical colonies is, indeed, one of the most encouraging elements of the recovery that is in progress. For the most part, however, those responsible for action in the various countries have devoted their energies primarily to domestic recovery. In the great industrial creditor countries, the export of capital has virtually ceased, but receipts from debt service continue and have even been augmented in real value by the fall that took place in raw-material and food prices. In the last two or three years, a part of the fall in prices has been recovered, to the great benefit of the exporting areas and debtor States; but the terms of trade still run in favour of the creditor countries.

Moreover, it has become very clear that the financing of industry may be so managed as to induce, at least in the short run, a fuller employment of national resources both of capital and of labour. Not only rich creditor countries, but debtor countries also have had recourse to such management. In some countries, there has been an accumulation of credit; in others, debts are not being paid. Where the mobilisation of credit resources has imperilled an already precarious balance of external payments, the control of such payments has in many cases been tightened. Indeed, the rapid spread of clearing agreements is largely a manifestation of this tendency. Behind the shelter of such controls the expansion of national markets by one means or another has proceeded rapidly. The longer-run effects of credit expansion or non-payment of debt, whether protected or not from external influences, have yet to be seen. It is evident that, whatever their consequences may be for the countries concerned, they have not facilitated the resumption of international co-operation.

THE RECOVERY QUICKENS.

When the last chapter of the last *Survey* was being written in July 1935, it was evident that economic recovery was accelerating except in a very few countries. Despite the lag of international trade and successive exchange crises in the gold-standard countries, world production was rising and unemployment diminishing. Commodity stocks were declining, consumers were buying again and prices were rising. All the indications pointed to a considerable autumn recovery.

In the early spring of 1936, despite political anxieties, the signs of economic recovery were even more marked than in the preceding summer. Production continues to increase and prices to rise. Unemployment is falling and there is some increase in international trade. It is obvious that these economic developments are due partly to precautions against war; but it is equally clear that economic forces making for recovery are at work in sufficient strength to overbear the hesitation that might normally result from grave political uncertainties.

The extent of recovery that has now been achieved is perhaps best illustrated by presenting a series of tabular statements showing the increases that have been recorded in production, prices and trade. The index numbers now available to measure the aggregate movement of certain important economic series in the world as a whole may first be given.

While the inferences to be drawn from these aggregate indices must necessarily be general and subject to a rather wide margin of error, the drift of the table is clear. A big jump in steel production, caused partly by rearmament but mainly by the revived demand for durable consumers' goods, such as motor-cars, constitutes a large part of the recovery in production.

World Indices of Production and Trade, 1929-1935.

(Base: 1929 = 100.)

	1929	1932	1933	1934	1935
Industrial production (incl. U.S.S.R.) [a] .	100	69	78	85	95
Industrial production (excl. U.S.S.R.) [a] .	100	63	71	77	84
Steel production (incl. U.S.S.R.) [b]. . . .	100	42	57	68	82*
Steel production (excl. U.S.S.R.) [b] . . .	100	39	53	63	75*
Textile production [c]	100	88	98	98	104
Industrial employment [d].	100	75	77	84	87
Industrial unemployment [d]	100	291	274	221	193
Quantum of world trade [b]	100	74	75	77	79
Shipping activity [b]	100	26	18	35	47
Stocks of staple commodities [c]	100	151	143	133	119

[a] League of Nations: *World Production and Prices, 1935/36*, Geneva, 1936.
[b] League of Nations: *Monthly Bulletin of Statistics.*
[c] Institut für Konjunkturforschung: *Vierteljahrsheft zur Konjunkturforschung.*
[d] International Labour Office: *International Labour Review*, January 1936.
* Provisional figure.

Production has increased faster than commodity stocks have declined and still faster than employment has increased or unemployment diminished. The revival of world trade and shipping activity still lag seriously behind. The recovery is largely confined within national boundaries. It is of interest, therefore, to compare the increases that have taken place in various countries.

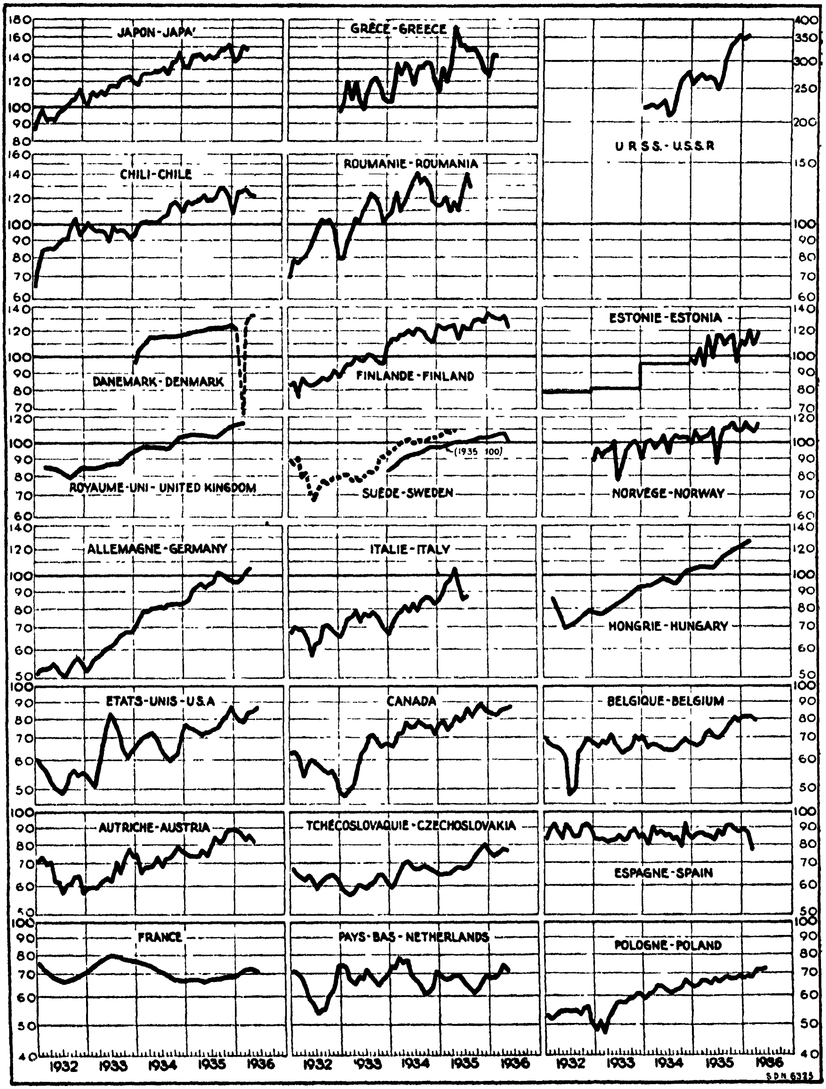
The diagram which follows will provide perspective for more recent changes. The base-line is provided by taking the various national indices for 1929 as equal to 100. Since 1932, it will be seen that the greatest increase above the base-line (except for the Union of Soviet Socialist Republics, which is not included in the diagram) is that for Japan. It is significant that all the other large increases shown are for hitherto backward industrial countries where development has been proceeding rapidly as trade restrictions have increased. Of the great industrial countries, only the United Kingdom, Sweden, Germany, and foi one month Italy, have regained the 1929 levels.

It is to more recent developments, however, that attention should be directed here. A table has therefore been compiled to show the percentage increase of industrial production in the last year for those countries where statistics are available. A similar calculation is included for share prices, wholesale commodity prices and unemployment. In each case, the calculation is made for the latest month available, compared with the corresponding month of the previous year.

Industrial Production.

(1929=100.)

Logarithmic scale.



Indices of Economic Recovery in Certain Countries.[a]

(Percentage increase or decrease in March 1936,
compared with March 1935.)

Country	Industrial production	Unemployment	Share prices	Wholesale prices
U.S.S.R.	+ 27[b]	.	.	.
Belgium	+ 21	− 33	+ 28	+ 25
Hungary	+ 20[c]	+ 0.5	+ 11	+ 7
Greece	+ 18	.	− 14	+ 3
Czechoslovakia	+ 16	− 1	+ 37	+ 1
Austria	+ 14	− 2	+ 28	− 2
Norway	+ 13	− 4	+ 36	+ 5
Canada	+ 12	+ 0.5	+ 55	+ 0.5
United Kingdom	+ 9[c]	− 10	+ 19	+ 6
France	+ 9	− 3	+ 6	+ 12
Chile	+ 9	− 47	+ 26	+ 7
Germany	+ 8	− 19	+ 7	+ 3
Finland	+ 6	− 32	.	+ 1
U.S.A.	+ 6	− 3	+ 65	+ 0.5
Japan	+ 5	− 1[b]	− 1	+ 4
Netherlands	+ 4	+ 12	+ 15	+ 1.5
Poland	+ 1.5	− 6	− 11	± 0
Spain	− 12	...	+ 4	+ 1
Denmark[d]	− 43	+ 23	+ 8	+ 6
Australia	.	− 26[b]	.	+ 3
Roumania	...	− 15	.	...
New Zealand	.	− 10	.	+ 1.5
Sweden[e]	...	− 8	+ 28	+ 3
Yugoslavia	.	+ 14	.	+ 12
Switzerland	.	+ 17	+ 7.5	+ 5

[a] *Monthly Bulletin of Statistics*, League of Nations.
[b] February figure.
[c] Quarterly figures.
[d] Labour dispute.
[e] Suspended pending recast of the index.

It is not easy to interpret the meaning of this table. The countries are arranged in order of the increase in production during 1935 wherever production statistics are available and for the last six countries in order of the reduction of unemployment. If the Union of Soviet Socialist Republics is set aside for the moment as a special case, the remaining countries appear to fall into three broad groups. The first consists of those countries — Belgium, Canada, Czechoslovakia, Hungary, Austria, Greece, Norway and, perhaps, Roumania — where, for various reasons, there was a marked increase of production in 1935.

In the second group, consisting of Japan, Chile, the United Kingdom, the United States, Sweden, Australia, New Zealand, Denmark, Finland, Germany, production continued to increase and unemployment to fall, but not to the same marked extent as in the first group above. Recovery has progressed in these countries farther than in most and, while progress continued in 1935, it was not so marked as the increases registered from lower levels in the first group.

The third group, marked, until the last few months, by stagnant production and increasing unemployment, consists of the gold *bloc* — France, Switzerland and the Netherlands — plus Spain. Poland, France and the Netherlands showed some increase of production during the year ending March 1936; but, as the unemployment, price and share indices show, these signs of recovery were accompanied in Poland by continued partial deflation.

This is a rather curious statistical result, particularly as regards the first group, and it is obvious that a variety of influences has been at work. While a complete explanation would call for detailed analysis of the circumstances of each country, attention may be drawn to some major factors which appear to be of general importance.

There has been recovery over a wide area since 1932, and during 1935 that recovery continued strongly. As production increased and unemployment declined in such great industrial countries as Belgium, Germany, Italy, Japan, the United States and the United Kingdom, the increased demand for raw materials, and to a less extent for foodstuffs, led to higher prices and therefore to greater receipts, not only in the agricultural-exporting countries of Asia, South America, Europe and the British Empire, but also in the mineral-exporting colonies. The impetus to increased production came from different sets of causes in the industrial countries. The stoppage of deflation and the beginnings of expansion in some was accompanied by external currency depreciation. In others, it took place behind the shelter of exchange controls. The influence of Government expenditures was a powerful factor in some; but in others increased production rested largely on private enterprise. Where public expenditure was a main cause of increased activity, a distinction must be drawn between the situation in rich creditor countries and in countries where resources are far scantier. Whatever the combination of causes in each particular case, the recovery of industrial demand led to increased demands for raw materials and therefore to an improvement in international trade from which the agricultural — and mineral — exporting countries benefited directly. As the prices of raw materials and most foodstuffs rose again sharply in late 1935 and early 1936, the national income of these countries was further improved. As it improves, their purchases of manufactured imports increase. The first factor to be stressed, therefore, is the spread of recovery due to increased economic activity in the industrial countries. Though other elements enter into the situation, much of this improvement is of a normal cyclical character.

Certain special characteristics of the year 1935 must, however, be mentioned briefly at this point. The first is the unusual influence in many countries of rearmament activity. While rearmament is proceeding generally, there are certain countries, particularly in the first group, where a rapid extension of the heavy industries to meet both domestic and export demands is directly connected with rearmament. Nor is this expansion confined to the heavy industries, since modern war preparations extend far beyond equipment and munitions. Rearmament has directly affected the countries supplying certain raw materials -- the non-ferrous metals, for example.

The second factor is intimately connected with the first. During 1935, there has been a very clear realignment of commercial relations among certain European countries. The German exchange policy has led to the conclusion of barter agreements by which her trade connections with some Central and Southern European countries and also with certain South-American countries have been at least temporarily strengthened. The strengthening of the Rome agreements, under which Austria and Hungary have recently conducted advantageous trade with Italy, affords another illustration. This reorganisation of trade relations, partly because of political considerations and partly as a consequence of bilateral commercial and financial bargaining, is further analysed in the later chapter of this *Survey* dealing with commercial policy.

In the third place, account must be taken of the continued trend towards industrial development in agricultural countries. Since manufacturing industry is weighted heavily in most indices of production, this development tends to exaggerate the recovery of production in the agricultural countries.

Another factor which has stimulated recovery in many agricultural countries, particularly in 1935, has been the relief gained by the non-payment of debt charges. Legislation for the relief of rural debtors, amounting in many countries to a virtually complete moratorium, has liberated the peasants from a heavy burden of current charges. The procedures by which such relief has been afforded are extremely complex and vary greatly from country to country, defying any brief summary. In some of the Eastern and South-Eastern European countries — for example, Bulgaria — the relief given to the peasant has not been accompanied by a writing-off of obligations. The final adjustments have yet to be made, but in the meantime there has been more money available for purchases within the country, particularly since export prices have risen, partly because of the improvement in world markets for agricultural products and partly because of German purchases. Behind the shelter of the protection afforded by exchange controls also, industrial production has increased. A further stimulus has been given in some cases by the use of foreign balances which are owing for debt payments but cannot be transferred abroad.[1] Foreign holdings in industrial enterprises have also been purchased on favourable terms. Another aspect of the complicated situation that has been produced by exchange controls and clearing agreements is the introduction of exchange premiums upon certain exports.

In a later chapter, the complex situation created by exchange control, clearing systems, bilateral trade treaties and exchange premiums is studied in more detail. Here it must suffice to draw attention to the fact that such developments have been superimposed upon the worldwide improvement of agricultural prices. Not only in the European agricultural countries, but in South America also, the new trade and exchange agreements have constituted an important factor in the economic improvement registered during 1935. Debt relief extends to an even wider circle of agricultural countries.

Though recovery has been very uneven and there is little possibility of international reintegration of markets as long as national price systems remain as insulated from one another as they now are, the principal exchanges have maintained remarkable stability. This is perhaps the outstanding achievement of credit management in the year that has just passed.[1] Despite recurrent political shocks, the principal exchanges have held quite steady since the recovery of sterling from a temporary depreciation in March 1935. The disturbances caused by recurrent flights of capital and by the repercussions of the United States' silver policy have been absorbed by the new technique of exchange management, of which the British Equalisation Account is the centre. The maintenance of this managed exchange equilibrium is not necessarily a sign of underlying economic adjustment. The movements of national price-levels were not in general very great during 1935, so that the strain thrown on the exchanges was not increased. Some of the exchange parities maintained were more nominal than real, while some currencies were, in fact if not in name, devalued. In these circumstances, the maintenance of exchange stability may be regarded as giving an opportunity of restoring a freer international equilibrium as prices rise, production expands and currencies are adjusted rather than a reflection of equilibrium already achieved.

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[1] *Cf.* the following extract from the *Bulletin* of the National Bank of Roumania, February 1936, page 43:

" The Roumanian economy, an integral part of world economy, must necessarily be influenced by the international economic situation. Thus, the improvement in the world wheat market, producing a rise in the price of that cereal, has contibuted to higher wheat prices on the domestic market, noticeably improving the condition of the most numerous class of our population.

" Apart from these external influences, the improvement of the national economic situation has its own causes.

" The development of industrial capacity within the country in order to economise exchange resources is beginning to yield fruit; this development maintains industrial production at a high level and improves the commercial balance by making it possible to restrict imports.

" The exchange regulations of April 15th, 1935, which made it possible to use blocked lei within the country, has enabled construction activity to continue at a high level and at the same time has caused increased activity in related industries.

" In the same way, the use of foreign capital blocked here replaces the influx of short-time capital so necessary to the Roumanian economy.

" In addition, the return of confidence and the reorganisation of credit, manifested by a marked increase of deposits and by interest reductions, have constituted elements of progress and have facilitated the increase of production. "

Around this managed stability of the principal currencies, there has been a complicated series of monetary expedients by which several currencies have, in fact, undergone partial devaluation. Except in China, there has been no overt devaluation since those of Belgium, Luxemburg and Danzig in the spring of 1935. Even the Italian lira, though not officially quoted in the principal money markets and subject to increasing depreciation on the black markets, is nominally maintained at the moderately depreciated value it commanded before sanctions went into effect. There is, however, an increased gold price in Italy and special lire are provided at a discount for tourists. The device of partial devaluation for special purposes first introduced by Germany tends to spread; but, during 1935, the technique of currency management evolved further in many European countries. In connection with bilateral clearing and payments agreements, export premiums were extended, creating in effect different exchange rates, not only for different classes of exports, but also as between different countries. The complexity of these systems is further analysed later. It is sufficient here to point out that, while the nominal parity of the currencies concerned is officially maintained, in fact there are many exchange rates for each of them, varying constantly, almost from transaction to transaction. Running through this confusion, however, there is a clear trend towards simplifying and regularising the currency depreciation usually at levels approximating more closely to those fixed by bargaining in private compensation transactions or in the black market. Some at least of the marked recovery of industrial production in the countries of Central and Southern Europe, therefore, is the effect of credit expansion made possible by the exchange premium systems which are in many ways equivalent to partial currency devaluation.

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[1] *Cf.* " A Year of Expanding Credit ", *Financial News, Banking Insurance and Financial Review*, March 16th, 1936, page 3:

" The economic historian of the future will probably turn to the year 1935 as marking a very definite milestone in the progress of currency management in this country and, indeed, in the whole world . . . During the past year, methods of credit control that succeeded in marrying the no longer opposed objectives of domestic needs for expanding credit and exchange stability were beginning to take definite shape."

One important aspect of currency depreciation in recent years in many countries has been a striking increase in gold production. The higher price of gold in terms of the new depreciated currencies, following upon lowered costs of production, has made the search for gold more intense. Old mines have been reopened and new fields explored. Ores of low gold content which could not be exploited profitably at the previous price have been utilised. Apart from the employment created in this way and the value of the actual gold that has been won, there are certain indirect effects of particular importance in present circumstances. In many countries, there has been a considerable import of private capital invested in gold-mining and this has stimulated recovery. Again, in countries suffering from a lack of foreign exchange reserves, the enhanced gold production is particularly useful. The economic situation of the Union of Soviet Socialist Republics has been greatly eased in this way, since the shipment of gold has obviated the necessity for forcing raw-material exports on to the world market. In other countries, the central bank gold reserves are being steadily built up by the acquirement of domestic gold. It should be added that technical mining conditions have up till the present limited the influence of the higher gold price upon South-African production. A recent authoritative statement suggests that, as from 1937, production in that area may be expected to increase rapidly, rising from 10,774,000 fine ounces in 1935 to perhaps 15 million ounces by 1940. Such an addition to the world stocks of gold, added to those already derived from other areas, would greatly reinforce the potential basis of credit expansion.[1]

It is clear that, in many countries, credit expansion is already under way, and the potential basis for further expansion in the world as a whole has been greatly enlarged and will probably be further enlarged in the near future. There is a distinction to be drawn between those countries where quickening activity is due to the increasing utilisation of accumulating credit resources and those in which credit expansion has been made possible by Government action behind the shelter of exchange control and import restrictions. There is no visible sign of any check to the gathering upward movement of production, employment and consumption in the world as a whole; but national recoveries are proceeding at an uneven pace and some are more precariously financed than others. Only the future can tell whether it will be possible to hold these independent national recoveries in sufficient equilibrium until returning prosperity enables the nations to effect such mutual adjustments as will make possible a reintegrated system of interdependent world specialisation.

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[1] "Annual Report of the Union Corporation of South Africa", London, April 1936.

THE SPREAD OF RECOVERY.

Throughout 1935 and the first quarter of 1936, recovery continued steadily in the United Kingdom. Production increased, building remained at a high level, capital issues expanded, share prices rose, and unemployment declined. The upward movement has been continuous since the latter part of 1932 and in early 1936 showed little sign of slackening. The initial impetus which changed contraction to expansion is still the subject of theoretical controversy. Whatever the exact sequence of causes may have been, the third quarter of 1932 saw the definite beginnings of reviving business confidence. Since that time, monetary, fiscal and othei economic factors have constantly reinforced each other in the upward spiral of recovery. Once freed from the external strain imposed by adherence to the gold standard at a time of general panic and gold-hoarding, the inherent strength and resilience of the banking system reasserted itself. The weakest point in the system had been the slender gold reserve of the Bank of England compared with the immensity of the strain imposed on it as the central reserve of virtually worldwide trade and international finance. Even before the abandonment of the gold standard, it had been possible to utilise banking resources to ease the domestic effects of the external drain. The Bank of England lost 10% of its gold reserve in 1931; but the total of banking deposits fell by only 2½%, since the gold loss was partially offset by an expansion of central bank credit and by a lowering of the cash reserve ratio of the commercial banks.

With this strain removed, the great strength of sterling became apparent. So large a proportion of world trade was conducted upon a sterling basis and so much of the short-term trading credit upon which that trade was conducted was supplied by London that, in fact, a managed sterling currency divorced from gold proved effective. The international repercussions of depreciation have been recorded in previous *Surveys*. They were both complex and important. When the old international equilibrium collapsed, there was a sharp accentuation of trade restrictions and a further severe fall in prices as world markets contracted. Many other currencies were shaken down from their former gold parities; but gradually out of the wreck a new but more restricted international system based on sterling began to form. As it formed, expansion of economic activity began slowly both in the United Kingdom and in the countries which had followed its currency policy. While in the independent countries, such as Japan, the United States and Canada, such expansion was mainly the result of national effort, there was mutual reinforcement as the various currencies gradually settled down to new parities among themselves and with sterling.

The processes by which the private undertakings as well as the public finances of the United Kingdom were brought again into a state that promoted greater confidence and therefore more willingness to embark upon enterprise are now well known. The Bank of England, freed from external strain, bought securities and lowered its discount rate, thus relieving the commercial banks and increasing their cash reserves as well as preparing the market for the great conversion operations that began in 1932. The commercial banks in turn relieved the business community by their purchases of gilt-edged securities and placed *entrepreneurs* in a position of greater liquidity. This process of domestic expansion was facilitated by an accumulation of credit partly due to the enormous creditor position of the United Kingdom. In depreciated sterling, the sums due from the Dominions and most other countries where British investments were considerable were not beyond the resources of the debtors and, in the meantime, new international lending had ceased. As prosperity slowly returned to the debtor countries, they began to build up their balances in London, and from time to time large amounts of refugee capital came in from other countries still on the gold standard. The abundance and cheapness of credit made possible not only Government (including Dominion), but also local body and, finally, industrial conversions.

The introduction of tariff protection stimulated certain industries, particularly iron and steel and motor-car production; tax concessions and a reorganisation of local rating gave a further stimulus; accumulating credit resources and lowered costs encouraged a rapid expansion, not only of building activity, but also of durable goods, such as motor-cars. Prosperity rapidly returned, except in the areas devoted to the great export industries that were still hampered by the post-war loss of markets and by the later drastic restrictions on international trade. With the revival of imports in the sterling area there was even some improvement in the export industries.

During 1935, however, evidence began to accumulate that this first phase of expansion was coming to an end. Adjustments to the new level of sterling were working themselves out both in the United Kingdom and abroad. There was little if any check to economic activity; but the slack had almost been taken up. Further expansion, it was felt in certain quarters, could probably not count for long upon a continuance of stable prices, extremely low interest rates and a generally low level of costs. On the contrary, the gathering recovery might well begin to exert an upward influence on costs, entailing a strain on the external balance of payments unless sterling weakened. Such a strain might be postponed by fresh capital flights to sterling enabling the Bank to increase its gold reserve, while a further credit expansion initiated by security purchases in the open market might keep interest rates down. In the present confused but controlled international situation, it is not easy to form an accurate judgment on such matters; but the immediate and disturbing reactions when sterling depreciated in March 1935 gave clear warning that further depreciation would be followed by serious international consequences.

With this safeguard virtually ruled out, independent credit expansion, whether based on temporary capital flights or upon central bank action, might risk a recurrence of external strain upon the balance of payments. The United Kingdom is, in fact, once more the nucleus of an international commercial and financial system, but this time on a sterling rather than a gold basis.

Further consideration is given later to the problems involved in the maintenance of international equilibrium. It is not intended here to suggest that the limits of domestic recovery have yet been reached in the United Kingdom. Indeed, it is obvious, since expansion continues without involving external strain, that they have not been reached. As far as external strain is concerned, they depend almost as much upon the pace of expansion elsewhere as upon British expansion. In particular, the level of prices, speculative values and purchasing power in the United States have an important bearing upon British recovery. If credit expansion should gather way in the United States, raising prices and attracting imports, it is conceivable, particularly if the exchanges held firm, that it might carry economic activity, not only in the United Kingdom, but elsewhere, into a fresh period of expansion.

Such anticipations of future possibilities, hypothetical as they must be, are practically important in their influence upon decisions concerning investment and monetary policy. During the earlier part of 1935, economic activity throughout the *sterling bloc* continued to increase, but at a slackening pace. There were from time to time apprehensions concerning the possibility of interest rates beginning to rise, of labour shortages at special points despite unemployment, of the building boom coming gradually to an end, of difficulties arising in connection with certain of the newly protected industries such as iron and steel, of risks in the greatly enlarged building society operations and the vigorous new growth of fixed trusts. The prices of gilt-edged securities showed a distinct tendency to droop and there were suggestions that a more positive central banking policy might soon be needed to ensure the continuance of low interest rates. Costs began to creep up also. The cost of living, indeed, rose fairly sharply and, at the beginning of 1936, was 3 % higher than it had been a year earlier. Despite a great volume of unemployment, there were shortages of skilled labour in many industries and nominal wages showed a definite rising tendency, while the number of unofficial strikes notably increased, betokening labour restlessness.[1]

The actual indices of economic activity, however, were encouraging. Towards the end of 1935, and in the first quarter of 1936, whatever slackening had been evident was definitely overcome by the further impetus to economic activity imparted by rearmament. The second phase of expansion was thus launched before the first had come to an end. Not only in the United Kingdom, but also throughout the sterling group, there was a distinct quickening of recovery at the beginning of 1936.

Indices of Economic Activity in the United Kingdom.

(Base: 1929 = 100.)

	1932	1933	1934	1935
Production:				
General index	83	88	99	106
Engineering	73	79	93	103
Automobiles	103	123	147	173
Textiles	86	91	93	98
Coal	81	80	86	86
Pig-iron	47	54	79	85
Steel	55	73	92	102

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[1] The budget delivered on April 20th, 1936, announced increases in taxation, including the income tax.

	1932	1933	1934	1935
Building activity:				
Residential	106	141	157	177
Other	65	67	92	129
Foreign trade:				
Imports	59	56	61	63
Exports	50	50	54	58
Retail trade turnover [a]	101	100	103	109
Employment	92	95	99	102
Unemployment	225	204	172	161

[a] 1933 = 100. Bank of England, Statistical Summary.

The relation of monetary policy to these industrial developments is more fully analysed in another publication of the Economic Intelligence Service.[1] The gold reserve of the Bank of England was enlarged and note circulation increased from year to year. The increased cash thus made available was utilised in an expansion of commercial bank credit, the cash reserve ratios of the commercial banks being kept steady except for a slight increase in 1933 and 1934, followed, however, by a return towards normal in 1935. The expansion of commercial credit continued without a check. In early 1936, gold was again purchased by the Bank and the note circulation was rising rapidly.

Banking Statistics in the United Kingdom.

£ (000,000's).

End of year:	1929	1932	1933	1934	1935
Central Bank gold reserve	146	121	192	193	201
Notes in circulation	370	371	392	405	425
Commercial Bank deposits:					
Time	815	963	900	910	924
Current	958	991	1,016	1,044	1,140
Total	1,773	1,954	1,916	1,954	2,064
Ratio of current account to total deposits	54%	51%	53%	53%	55%
Cash reserve ratio (average of year)	10.8%	10.4%	10.8%	11.3%	10.8%

Coincident with the increased activity in current business summarily described above, there was, during 1935, a considerable revival of new investment as well as a sharp rise in share values. The index of share prices (1929 =100) rose from an average of 89.9 in 1934 to 100.7 in 1935. In February 1936, it stood at 114.4. This rise was due partly to the better profit statistics which are described in the next chapter. In part also it may have been due to the bidding-up of certain share prices caused by the very rapid growth of the fixed trust movement, but it was largely the result of greater anticipations for the future. As always in such circumstances, new flotations were encouraged and the new industrial issues in 1935 were greater than those of 1929.

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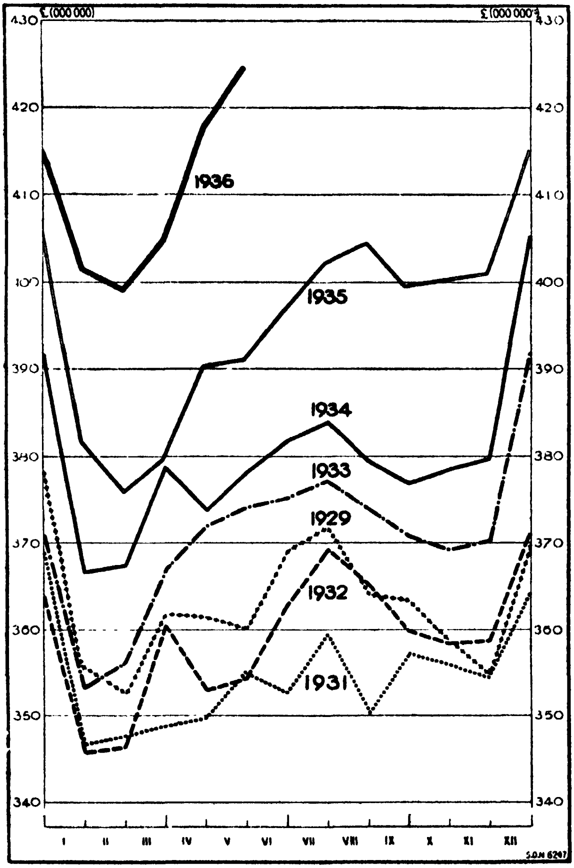
[1] *Money and Banking, 1935/36.*

Bank of England Notes in circulation.



Public Issues of Long-term Securities in the British Capital Market, 1931-1935.

£ (000,000's).

New capital issues:	1931	1932	1933	1934	1935
United Kingdom:					
Government	10.7	102.7	150.8	44.1	88.0
Other	43.8	60.3	59.4	93.6	132.7
British Possessions:					
Government	30.6	23.8	24.2	8.5	15.2
Other	7.9	1.8	5.0	21.5	
Foreign Countries:					
Government	1.7	—	5.3	—	—
Other	7.4	0.3	0.1	1.5	0.2
Grand total . . .	102.1	188.9	244.8	169.1	236.1
Conversions:					
United Kingdom:					
Government	12.2	2,479.0	50.8	105.0	204.0
Other	—	31.8	172.3	52.2	108.2
British Possessions:					
Government	—			60.5	
Other	—			—	
Foreign Countries:					
Government	—			24.2	
Other	—			—	
Grand total . . .	12.2	2,510.8	223.1	241.9	312.2

The general situation at the beginning of 1936 therefore suggested that a second phase of expansion was beginning. The recovery, which had consisted largely of adjustments to the new situation created by sterling depreciation, was coming to an end, but credit expansion continued and was taking the more usual form of a rising stock market and increased capital issues. A new element was injected by the launching of a substantial rearmament programme and a distinct new stimulus was apparently felt by industry and finance. What changed the outlook, however, was an increasing doubt concerning the possibility of this further expansion being facilitated by quiescent price levels and interest rates. For the moment, a disturbed international situation gave strength to sterling, and, in March 1936, as in the closing months of 1935, the Bank of England was purchasing gold.

This view of developments in the United Kingdom is supported by a consideration of the statistics that are available for the countries of the sterling group. In the following table, some of these statistics are summarised, not only for the countries whose currencies are definitely linked with sterling, but also for those, such as the United States, Canada, Sweden and

Japan, whose exchanges are depreciated and have, like sterling, remained relatively stable during 1935. A comparison with the similar table given in the *Survey* for 1934/35 shows clearly that, with some exceptions, notably the United States and Canada, the pace of recovery slackened somewhat in 1935. Naturally, the percentage increases shown are likely to be less, as they are calculated upon a larger base figure; but, even allowing for this factor, there was a slowing-up of recovery. The trade figures are particularly interesting, since they show a distinct tendency in 1935 as in 1934 for the imports into many of the agricultural exporting countries to increase faster than exports from those countries. The increased exports from the United Kingdom are in conformity with this movement.

Indices of Recovery in Countries with Depreciated Currencies.

(Percentage increase or decrease in 1935 compared with 1934.)

Country	Production	Value in national currencies		Share prices	Wholesale prices	Unemployment
		Imports	Exports			
Argentine	.	+ 6	+ 9	.	− 2	.
Australia	.	+15	+15	.	± 0	−17
Austria	+10	+ 5	+ 4	+32	± 0	− 6
Belgium	+12[a]	+24	+17	+21	+13	−10
Brazil	.	+54	+19	.	.	.
Canada	+11	+ 7	+ 9	+17	+ 1	− 5
Ceylon	.	+ 5	− 5	.	.	.
Chile	+14	+38	+ 1	+ 7	+ 0	−64
Czechoslovakia	+ 5	+ 5	+ 2	+ 9	+ 4	+ 1
Denmark	+ 3	− 2	+ 3	+ 3	+ 2	− 5
Egypt	.	+ 9	+10	.	+ 9	.
Estonia	+10	+24	+16	.	− 1	−40
Finland	+ 7	+12	± 0	.	+ 0	−28
India	.	+ 7	+ 6	.	+ 2	.
Irish Free State	.	− 4	+12	.	.	+15
Japan	+10	+ 8	+15	−18	+ 4	− 5
British Malaya	.	+ 1	+ 5	.	.	.
New Zealand	.	+16	− 2	.	+ 4	− 3
Norway	+ 8	+12	+ 5	+16	+ 2	+ 3
Palestine	.	+18	+31	.	.	.
Portugal	.	+13	− 2	.	− 8	.
Sweden	...	+13	− 1	+14	+ 2	− 4
United Kingdom	+ 7	+ 3	+ 8	+12	+ 1	− 5
U.S.A.	+14	+25	+ 7	+12	+ 7	− 1

[a] II-VII. 1934: Labour dispute (wool).

Two important contrary developments must be stressed. The first is the reversal of the previous tendency in the United States for exports to increase faster than imports. During 1935, imports increased by 25% and exports by 7%. In part, this was due to increasing recovery in the United States, but the effect of the reciprocal trade treaties negotiated with various countries was considerable also. The effects of these treaties constitute a notable example of the mutual benefits accruing from reciprocal trade expansion. A convincing illustration of the relief afforded to the sterling area by increased demands from the United States may be found in the influence of the increased American demand for Canadian timber and wood-pulp. At a time when there was some apprehension that a slackening of the building boom in the United Kingdom might have an adverse effect on the demand for Scandinavian timber, Canadian supplies were partly diverted to the United States. In the same way, it is probable that the diversion of Canadian dairy products will assist the competitive suppliers of the British market.

The second fact, not revealed by the annual figures, was a sharp increase of British imports in the last quarter of 1935 and the first quarter of 1936. During these six months, the increase in imports was five times as great as that in exports. This mainly represented a sudden increase in the demand for raw materials.

Perhaps the clearest effect of this sudden change was the rise in Australian wool prices. The total value of exports from Australia in the last quarter of 1935 was 23 % greater than in the last quarter of 1934. In Canada, the increase was 21 %, in South Africa 80 %, in New Zealand 44 %, in the Argentine 7 %, in Brazil 20 %, in India 17 %.

As a result of these changes, there was a distinct improvement in the balance of trade of the sterling area as compared with 1934, but this improvement came mainly in the latter part of the year. Increased strain on the agricultural exporting countries ran down their London balances earlier in the year; but these began to accumulate again with increasing export values in the season of 1935/36. It is apparent that the hesitation of recovery had passed with the renewed stimulus of higher export prices. The tightening of interest rates in Australia, to which reference is made in a later chapter, would appear to have been a belated incident rather than a necessity in early 1936. Elsewhere in the sterling group, recovery took a new lease of life with the passing of British recovery into its second phase and the acceleration of recovery in the United States.

Canada, aided by recovery in the United States, by some credit expansion within the Dominion, by a better world market for wheat, by increasing gold production and by greater demands for the non-ferrous metals, experienced further considerable recovery in 1935. The commercial treaty with the United States gave a further stimulus and, like other American silver producers, Canada benefited from the United States purchases. Some of the more significant statistics of economic activity in Canada are reproduced below, the general level now corresponding to that of 1926, which was regarded as an average post-war year.

Economic Indices in Canada. [a]

(Base: 1929 = 100.)

	1932	1933	1934	1935
Physical volume of business [b]	63	63	75	82
Value of building contracts	17	9	11	20
Production:				
Pig-iron	13	21	38	56
Steel	25	30	55	68
Newsprint [c]	70	74	95	101
Motor-car [c]	23	25	45	66
Electric power [c]	89	97	118	119
Export Values: [d]				
Copper (blister)	5	5	8	21
Nickel (fine)	23	75	93	142
Gold	13	8	13	14
Wheat	51	49	53	55
Bank deposits	85	86	92	98
Wholesale prices	70	70	75	75
Share prices	24	35	46	54
Unemployment	502	547	594	562

[a] *Monthly Bulletin of Statistics*, League of Nations.
[b] *Monthly Review of Business Statistics*, Canada.
[c] *Statistical Year-Book of the League of Nations.*
[d] *Trade of Canada, 1930, 1933, 1935.*

Outside the sterling group proper, in the South-American countries, there was much the same development, aided even more directly by increased exports to the United States. Argentine exports increased in value by over 9%, smaller quantities of wheat being exported at higher prices, and larger quantities of maize at lower prices. The freeing of the exchange market by the Roca Agreement and the creation of central banking machinery have created very liquid credit conditions and conversion operations have been successfully begun. In Brazil, economic activity had been stimulated by a further increase in cotton production and a revival of foreign demand for coffee in the latter half of 1935. The extraordinary increase of imports (54%) is due largely to a growing import of capital connected with the expanding production and manufacture of cotton.

Gold reserves are beginning to accumulate and there have been a succession of agreements with foreign short-term creditors, as a result of which the exchange market has been relieved. Increased silver prices were beneficial to producers in Mexico and Peru, petrol production increased in the Argentine, Colombia, Mexico, Peru and Venezuela, while the price rose. The expansion of foreign trade in most of these countries,[1] improved exchange stability, increasing industrial development, partial resumption of debt services, and renewed private capital imports were indicative of returning prosperity.

The Scandinavian countries also, while not definitely pegged to sterling, revolve within its orbit.[2] It is not possible here to trace in detail the economic development of each particular country or group of countries. References to various aspects of their development will be found in later chapters dealing with production, prices, public finance, trade and banking. It is of some interest, however, to note that recovery has proceeded far enough in Sweden to warrant the Government in proposing during the financial year 1936/37 to reduce income tax by 12% and yet to repay in full all moneys borrowed on account of extraordinary and non-productive crisis expenditure. Production rose in 1935 by 10%, there was a marked increase of capital flotations, and the banking position, both internally and externally, was very liquid. Finland also appeared to be approaching full prosperity, while the effects of devaluation in Estonia were very marked in 1935. In Denmark, recovery was slowing-up more definitely, trade restrictions and low butter prices, together with a partial reversal of the cheap money policy, exerting an unfavourable influence. In Norway, recovery began later and was still developing in 1935. The Scandinavian countries, indeed, showed clearly the possibilities and limitations of expansionist monetary policies under rather exceptionally favourable conditions. In Sweden, Finland and Denmark, the rate of expansion was slowing up, in Norway and Estonia it was still increasing. In all, however, trade with the United Kingdom and the sterling area remained an important factor, and it was with a significant note of relief that it was stated " that Canada's previous export of her surplus quantities (of timber) to Europe, notably England, is now again apparently finding its way to its natural market, the United States."

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[1] Haiti, Colombia, Paraguay, Peru and Bolivia were exceptions; but Haitian trade showed a rapid recovery late in 1935 after the negotiation of a reciprocal treaty with the United States.

[2] *Cf.* Bertil Ohlin: "Can the Gold Block learn from the Sterling Block's Experiences ?" *Index*, March 1936.

In all of these countries grouped more or less closely around the United Kingdom, despite considerable differences in their economic structure, trade connections and national policies, there has been a broad similarity of recovery. Essentially, they have depended upon the credit expansion centred in the United Kingdom and upon the revival of industrial activity that has followed readjustment to the depreciated sterling level. In all of them, public financial policy has followed orthodox lines[1]; there has been relative exchange stability and freedom from extraordinary trade restrictions. Their substantial recovery up to the present has been solidly based upon accumulating credit, increased production and mutual trade.

In another group of countries, credit expansion has been directly associated with large Government expenditures based upon heavy borrowing. The developments during 1935 in the United States are considered in the following section. It is necessary at this point, however, to make a rapid and necessarily incomplete survey of the progress achieved in some other countries where recovery has been based on deficit financing.

In Japan, production and exports continued to increase in 1935, though rather more slowly than in previous years, the balance of external trade was maintained without external borrowing and there was no further depreciation of the yen. There was, however, some hesitation in financial policy during 1935, and the various financial indices, particularly a sharp fall in stock exchange prices, reveal some apprehension concerning the future. That there was serious conflict of policy is sufficiently revealed by the political assassinations that took place in March 1936.

Japan, unlike the countries of the sterling area, did not secure any great inflow of gold or foreign assets reserves by reason of the great expansion of her export trade, imports expanding almost as much as exports. In 1935, there was a further movement towards restriction of export outlets, several South-American countries following the example set by the British colonies, India and the Netherlands Indies in imposing quantitative restrictions. Exports expanded, but the limits of expansion were obviously narrowing. The greater part of the increase in Japanese production, however, has clearly been the result of national credit expansion produced by Government expenditure.

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[1] The public works policy in Sweden, the termination of which is foreshadowed in the budget for 1936/37, is considered in a later chapter.

Economic Indices in Japan 1931-1935.

(Base: 1930 = 100.)
Annual Average.

	1931	1932	1933	1934	1935
Production	97	103	119	136	150
Investment goods	91	104	134	170	195
Consumption goods	100	106	118	128	138
Textiles	105	111	122	134	145
Pig-iron	82	90	122	148	161
Steel	82	105	140	170	196
Business activity [a]	89	90	97	103	106
Wholesale prices	84	89	99	98	102
Cost of living	87	88	94	96	98
Imports	80	92	125	149	161
Exports	78	95	128	149	172
Share values [b]	102	139	236	298	243
Unemployment	114	131	111	101	96

[a] Normal = 100.
[b] January 1930 = 100.

The most notable feature of this table is the substantial increase in the production of investment goods. Government spending, including subsidies for various purposes, capital construction in Manchuria, and increased shipbuilding for the export trade was largely financed by borrowing. The secondary effects of such expenditure resulted naturally in an increased output of consumption goods for the home as well as the export market. Employment increased, but average wages fell, prices were relatively stable and agriculture remained depressed. The deficits of Government finance were met by the sale of bonds to the Bank of Japan and the Treasury Deposits Bureau, which sold these bonds to the market from time to time. During 1934, such sales to the market evidently threatened to tighten interest rates and there was a distinct fall in the turnover of credit.[1] In 1935, Government expenditure continued; but there was controversy over the investment of capital in Manchuria and an attempt on the part of the Government to taper off the process of borrowing. When the elections in February 1936 seemed to confirm the Government's opposition to continued borrowing on a large scale, a political crisis ensued which, after the assassination of the Finance Minister, brought forth a statement disavowing the need for fresh taxation and intimating that expenditure based upon borrowing would continue.

It was apparent, therefore, that the first gains from an expansionist policy had largely been reaped. While the long-term upward trend was still evident, the extraordinary expansion above the long-term upward trend was ceasing.[1]

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[1] *Cf. Money and Banking, 1935/36.*

In other words, though production continued to increase rather rapidly, the increase was slowing down, the stimulus of an expansionist credit policy having been largely exhausted.

In Italy and Germany, also, Government expenditure has been used to stimulate a considerable measure of increased production and employment. With the imposition of economic sanctions following the outbreak of hostilities with Ethiopia, the publication of economic statistics was suspended in Italy, so that there is little statistical information available for the period since the last *Survey* was published.

The German expansion has been particularly marked since the advent of the new financial policy in 1933. Behind a stiffening control of external trade and continued default on a great part of the external debt, there has been a rapid expansion of Government expenditure based upon short-term domestic borrowing. The essential features of this expansion behind a rigorously controlled balance of external payments were described in the preceding *Survey*. During 1935, the ingenious technique by which exports were encouraged, which is described in a later chapter, was successful in arresting the long decline of export values, and in establishing again a small surplus of exports over imports.[2] This result, however, as the diagram on the following page clearly shows, was achieved only by lowered export prices as exports were subsidised.[3]

German Imports and Exports 1929-1935.

RM. (000'000's).

Year	Imports	Exports	Balance + = Export surplus − = Import surplus
1929.	13,447	[a]13,483	+ 36
1930.	10,393	[a]12,036	+1,643
1931.	6,727	[a]9,599	+2,872
1932.	4,667	[a]5,739	+1,072
1933.	4,204	4,871	+ 667
1934.	4,451	4,167	− 284
1935.	4,159	4,270	+ 111

[a] Including reparations deliveries.

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[1] *The Oriental Economist's* index of business activity fell by 1.2% in 1935, after correction for secular trend. Commenting upon this figure, the *Oriental Economist* (February 1936) stated that " business conditions in Japan (perceptibly since last spring) give the impression of having lost the power to climb higher . . . A reaction at this stage of recovery gives rise to the interpretation that forces underlying Japan's business and industrial recovery are already slowing down appreciably. This, however, must not be confused with the fundamental vitality of Japanese industry, the further expansion of which remains essentially unimpaired; for the above index of business activity is obtained by combining various factors adjusted for their secular trends, and these secular trends probably assume the importance of an annual average of 5% or more."

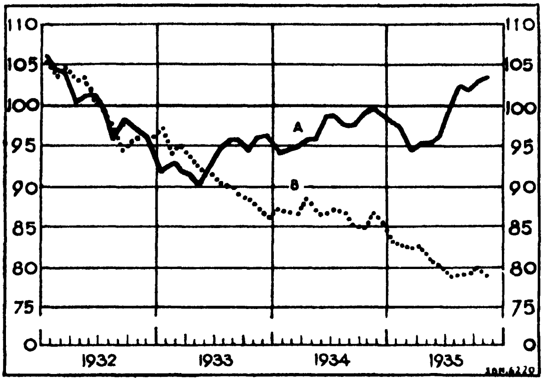
[2] *Cf.* Chapter VII.

[3] Weekly Report of the German Institute for Business Research, January 29th, 1936.

German Import and Export Prices.

Actual import and export values calculated as percentages of 1928 prices (1932 = 100.)

A Import prices for raw materials and semi-finished goods.
B Export prices for finished goods.



This improvement in the commodity balance of trade seemed to promise at one stage an increase in the gold and exchange reserves of the Reichsbank, which from RM. 2,884 million in 1929 had sunk to RM. 84 million in 1934. In September 1935, they had risen slightly to RM. 101 million; but by March 1936 they had fallen once more to RM. 77 million, thus indicating that the invisible trade items plus the need for raw-material and food imports were straining the balance of external payments.

Within Germany, as in the other countries where expansion was in progress, production continued to increase during 1935, but at a somewhat slower rate than in the preceding year.

Economic Indices in Germany.

(Base: 1929 = 100.)

	1932	1933	1934	1935[a]
Industrial production .	53	61	80	94
Investment goods . . .	34	44	73	99
Consumption goods . .	76	83	92	88
Pig-iron	30	40	66	95
Steel	35	47	73	99
Building activity[b] . .	25	30	41	50
Wholesale prices . . .	70	68	72	74
Cost of living	78	77	79	80
Unemployment	295	254[c]	144	114

[a] Since March, including Saar.
[b] Residential.
[c] Since July 1933 not including persons employed in labour camps.

The actual decline in the production of consumption goods during 1935 is, perhaps, the most striking feature of this table. In the absence of published budgetary statistics, it is not possible to measure the extent to which the increased production has depended upon Government borrowing; but it is clear that the stimulus given by unbalanced public expenditure has been concentration upon the heavy industries. Rearmament and re-employment have been the primary aims of the German credit expansion. Wages have not risen with the cost of living and consumption has therefore declined. There has, therefore, been little or no " secondary " effect of the large Government expenditures and, as the banking statistics given in a later chapter indicate, little if any revival of commercial enterprise. The increase of production and employment represents in the main a mobilisation of the community's resources for the strengthening of the State. All the reserves of capital and stocks have been thrown into this effort and it is not yet clear how these reserves will be restored.

The Union of Soviet Socialist Republics does not fit easily into any of the categories considered. A powerfully centralised Government working on the basis of elaborate statistical plans reaching down to the minute regulation of agricultural and industrial production has mobilised and directed a large proportion of available national resources to the rapid equipment of machine and heavy industries. A continuous controlled expansion of credit has been an essential part of the plan.[1] Effective control of all external relationships — commodity trade, short-term credit, shipping and tourist traffic — has been combined with regulation of domestic prices, employment, investment and other elements of economic activity. The exact mechanism by which local and group initiative travelling up through regional and functional organisation is combined with central direction of policy is too complicated for summary description. It is, moreover, extremely difficult to represent in any brief statistical form the nature and progress of the transformation that is being carried through in so great an area comprising such diverse resources and peoples of such widely differing development.

The increase of production in the heavy industries has been rapid and continuous for many years. In 1935, a fresh stimulus was given in certain industries by adoption of the new working methods to which a mine-worker named Stakhanov has given his name. Some of the main results appear in the following table.

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[1] Between January 1st, 1934, and October 1st, 1935, the bank-notes issued for circulation rose from 343 to 500 million chervonetz, the " firm cover " ratio falling from 25.1% to 20.1%.

Average Daily Output of Certain Basic Commodities.[a]

		1928	1932	1934	1935 (Nov.)
Coal	Tons (000's)	99.2	174.9	253.7	332.7
Pig-iron	,, ,,	9.2	16.8	28.6	35.0
Steel	,, ,,	11.9	16.1	26.2	37.1
Rolled metal	,, ,,	10.7	12.4	19.3	29.7
Superphosphates . . .	Tons	410	1,684	2,306	3,499

Average Monthly Output of Certain Machines.[a]

	1928	1932	1934	1935 (first 11 months)
Locomotives (reduced to Series E) . .	40	69	105	152
Waggons and Trucks (in 2-axle units).	1,158	1,600	2,845	7,875
Motor-lorries	66	2,091	4,614	6,316
Motor-cars	—	30	1,425	1,600
Tractors (in 15-h.p. units).	105	4,215	9,724	12,611
Combines	—	834	691	1,796

[a] *Monthly Review* issued by the U.S.S.R. Trade Delegation in Great Britain, Vol. IX, No. 1.

These figures, which enable comparison to be made with the absolute production of other countries, indicate that, despite striking percentage increases, machine production is still small. Raw-material production, of course, is more substantial. In the production of iron-ore the Soviet Union is third, of pig-iron second, of steel third, of coal fourth, of petrol second, and of gold second among the world's producing areas. The recent increase of gold production, though its extent is not exactly known, has greatly eased the external financial situation, lessening the pressure to export, while at the same time enabling the Union of Soviet Socialist Republics to maintain imports,[1] while at the same time reducing its short-term external debts.[2] The situation of the State Bank has also been strengthened, while gold reserves increased in 1935. In these more favourable circumstances, greater attention to food supplies and the development of light industry has been possible. Rationing has been ended and considerable progress has been made in supplying textiles and other articles of immediate consumption.

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[1] During 1935, imports rose from 19.37 to 20.11, while exports fell from 34.86 to 30.62 million roubles.

[2] It was estimated that a total indebtedness of 1,400 million roubles in 1931 was reduced to 139 millions at October 1st, 1935. *Cf. Financial Times*, November 30th, 1935.

Among the other countries where production and trade increased during 1935 were Belgium and Austria, where effective devaluation had been carried out, and others which, while retaining the nominal gold parities of their currencies, achieved what was in fact partial devaluation and in certain cases increased Government expenditure behind the shelter of exchange controls. It is perhaps misleading to group these countries together, since they pursued policies that were widely different in many important respects; but they shared in common one important development — an escape from deflationary pressure.

Devaluation was definite and clear-cut in Belgium, which in effect linked its price system to the expanding economy of the sterling area. The devaluation was just sufficient (provided no further sterling depreciation occurs), coupled with previous price deflation and some rebound of prices after devaluation, to restore price-levels to their previous relationship with those of the United Kingdom. The subsequent expansion of production and employment has arrested deflation and restored the 1935 indices to 1932 levels; but the expansion did not really begin till towards the end of the year and is still in progress. The greatest gain after devaluation was a sharp decline in interest rates accompanied by a release of tension in the money market.

Economic Indices in Belgium, 1932-1935.

(Base: 1929 = 100.)

	1932	1933	1934	1935
Industrial production . .	69	71	72*	81
Textiles	64	65	49*	60
Pig-iron.	68	68	72	76
Steel	68	67	72	74
Imports.	45	42	39	48
Exports.	47	44	43	50
Wholesale prices . . .	63	59	56	63
Cost of living	84	83	79	80
Share prices	37	36	31	37

* II-VII: Labour dispute (wool).

For a variety of reasons, Austria made substantial progress during the year. The production of iron and steel rose sharply. Exports were stimulated also especially by demands from Italy in the last quarter of the year, though there were delays in the payments due for exports to the exchange-control countries. At the same time, the public finances and the external balance of payments were relieved by the effect of the conversions that had been effected. Further progress was made in the consolidation of the external debt by the settlement of the Creditanstalt " live claims ". The gold reserves had been revalued in April 1934, thus implying a devaluation of 21.3 %. The level of wholesale prices has been kept steady, but share prices have risen sharply. In March 1936, the latter index was 30% higher than it had been twelve months earlier, a third of this rise having occurred in the first quarter of 1936. Production in the same period rose by 21%, while unemployment fell by 6%, but consumption turnover remained almost at the same level. In the latter part of March, the collapse of the Phœnix Life Insurance Company caused heavy losses and it became necessary to reorganise the whole insurance business in Austria and to place the Kompassbank in receivership.

The situation of the Central and Eastern European countries during 1935 was, on balance, considerably improved. The increased demands for wheat and other agricultural products in world markets enabled these countries to increase the volume of their exports while at the same time receiving higher prices. Domestic prices also rose and the position of the farming community was relieved. Certain special factors must also be noted, particularly the effect of the German policy of purchasing agricultural and mineral raw materials in countries where clearing arrangements with Germany were in operation. Fuller details of this policy will be found in later chapters dealing with international trade and commercial policy. Meantime, attention may be drawn to the importance of German purchases and sales in certain countries as summarised in the following table:

Imports and Exports of Central and Eastern European Countries from and to Germany in 1934 and 1935.

(000,000's.)

Country	Currency	Imports				Exports			
		1934		1935		1934		1935	
		Value	% of total imports	Value	% of total imports	Value	% of total exports	Value	% of total exports
Austria . .	Schillings	198	17.1	201	16.6	136	15.9	140	15.6
Bulgaria .	Leva	902	40.2	1,610	53.5	1,083	42.8	1,562	48.0
Greece . .	Drachmæ	1,291	14.7	1,997	18.7	1,231	22.5	2,109	29.7
Hungary .	Pengö	63	18.3	90	22.6	90	22.2	109	23.9
Poland . .	Zloty	108	13.5	124	14.4	162	16.6	137	14.8
Roumania.	Lei	2,048	15.5	2,543	24.4	2,264	16.6	2,727	16.6
Yugoslavia	Dinars	497	13.9	598	16.2	598	15.4	751	18.6

As will be seen from this table, the influence of the German trade policy was most marked in Bulgaria, where both imports from and exports to Germany increased heavily in amount and in proportion to the total trade of Bulgaria. In Greece also, there was a considerable increase of both imports and exports. The increases were less marked in Hungary and in Yugoslavia, while both in Roumania and in Poland an increased proportion of imports was registered. In Roumania, the value of exports to Germany increased, but the proportion of total exports going to that country fell slightly. In Poland, the value of exports to Germany fell appreciably, while in Austria both imports and exports were practically stationary, though trade with other countries increased.

In the countries which were able to sell exports at favourable prices to Germany, and in less degree to Italy, the agriculturists received payment in local currency; but there was a transfer difficulty and large mark (and lira) balances were accumulated. There was therefore some pressure on the exchange resources of the Central Banks. Greece, for example, lost approximately 20% of its central bank reserve, despite a virtually unchanged balance of commodity trade at a higher level of imports and exports. Larger imports of industrial exports from Germany at subsidised prices helped to reduce these balances, but the shortage of free exchange in several of these countries led, in the latter part of 1935, to efforts to increase exports to countries other than Germany. The export premium and import surcharge systems were utilised in an attempt to direct a greater volume of trade to the countries with free exchanges. In Bulgaria at the beginning of 1936, export permits to Germany were being granted only when a proportion of exports to a free-exchange country could be made at the same time. It is therefore difficult at present to foresee the final outcome of these trading complications.

In the course of revising the export premium and import surcharge systems, there were attempts at simplifying and regularising the exchange rates: the effect was in some cases virtually equivalent to a recognition of *de facto* devaluation. In Hungary, prices rose by 13%; in Roumania, the rise was even greater (16%). There was depreciation of the exchange in both countries, the rate in Roumania falling by over 27%, while the compensation rate, as distinct from the official parity, in Hungary showed about 35% depreciation.

In Czechoslovakia, the economic improvement during 1935 was checked somewhat by high levels of domestic, and particularly agricultural, prices. There were increased export demands and, as elsewhere in Central Europe, an export premium system was in operation. Imports increased faster than exports, however, and there was some loss of central bank reserve assets.

Depression conditions persisted in all the countries of the gold *bloc*. Even in Poland, where production increased by 5%, average unemployment was greater than in the previous year (though there was some improvement in the latter part of 1935). The situation of the gold-standard countries is clearly shown from their position in the following table:

Economic Indices in Countries with Fixed Currency Parities.
(Percentage increase or decrease in 1935 compared with 1934.)

Country	Production	Building activity	Imports	Exports	Share prices	Wholesale prices	Unemployment
Algeria . . .	.	.	−18	+17	.	.	.
Bulgaria . .	.	.	+34	+28	.	+2	+16
France . . .	−5	−16	−9	−13	+3	−10	+24
Germany . .	+18	+67	−7	+2	+13	+3	−21
Hungary . .	+14	+45	+15	+13	+35	+13	+0
Indo-China .	.	.	−2	+20	.	−1	.
Lithuania . .	.	.	−8	+3	.	.	.
Morocco . .	.	.	−14	−7	.	.	.
Netherlands .	−5	−14	−10	−5	−9	−2	+16
Netherlands Indies	.	.	−7	−12	.	−3	.
Poland . . .	+5	±0	+8	−5	+13	−5	+12
Roumania .	...	...	−19	+23	.	+16	−20
Spain . . .	+2	+56	+3	−5	+10	+2	+12
Switzerland .	.	−44	−11	−3	+7	+0	+11
Turkey . . .	.	.	+2	+4	.	+9	.
U.S.S.R. .	+21	.	+4	−12	.	.	.
Yugoslavia .	.	.	+4	+4	.	+4	+9

Even in the gold *bloc*, however, though industrial production at the beginning of 1936 remained approximately 30% below the 1929 level in each of them,[1] there were signs that deflation had stopped. This appears to have been due in France at least to an increase of central bank credit, rediscounts at the Banque de France rising sharply as a result of increasing Treasury bill issues to cover the budgetary deficit. Wholesale prices jumped by 17% in France between July 1935 and February 1936. The lack of confidence in the currency was shown both by a persistent strain on the external balance of payments and by the scarcity and high price of capital resulting from hoarding on a great scale. The situation in the gold-standard countries is examined in more detail in the final chapter of this *Survey*.

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[1] The indices of industrial production in France, Poland and the Netherlands were (1929=100) 71.0, 68.8 and 67.9 in February 1936, while the index of goods transported by rail in Switzerland was about at the same level. This compares with a level about 15% lower than 1929 in Canada and the United States, while in most of the sterling countries the level was higher than that of 1929.

THE PROSPECT OF CREDIT EXPANSION IN THE UNITED STATES OF AMERICA.

The strength and persistence of economic recovery during 1935 has been described in the previous section. Not only in the sterling area and in other countries where trade remained relatively free, but behind the shelter of exchange controls in many European countries there was a marked increase of production and less unemployment. Even in the countries whose continued adherence to high exchange parities tended to maintain deflationary pressure, there were signs of slight relief. The great raw-material-producing countries were profiting from improved prices for their exports. Though the recovery remained primarily national in character, there was a distinct if small increase in international trade. Everywhere the recovery was marked by an expansion of credit, in some cases contrived by new monetary procedures upon the basis of limited resources, in others largely the result of credit accumulations. The credit expansion, indeed, showed distinct signs of quickening, taking on a life and activity of its own. The methods utilised to procure it had not in most countries been abandoned or slackened; but, after some years of cheap money, industrial activity over a wide area was beginning to develop its own propelling rhythms. Even where the strain consequent upon maintaining a high exchange parity persisted, the pressure of domestic needs appeared to be forcing a relaxation of deflation, so that contraction was slowing up and even giving way to slight expansion of economic activity.

The influence of the United States, not only because of its economic magnitude, but also because of its pivotal position in the precariously maintained international equilibrium, demands separate examination. Facing East and West, it could not fail to play an important rôle in the development of economic conditions in Europe as well as the Far East. The year 1935 was marked, not only by a drain of gold from Europe and the departure of China from its immemorial silver standard, but also by a notable integration of the economic relations between the United States and the South American countries and Canada. There were, indeed, many other powerful national and international forces at work in all these areas. Domestic considerations were potent in each country, and other great centres of international activity such as the United Kingdom and Japan exerted their attraction towards recovery. The importance of the United States in the world system, however, comes, not only from its mass, but also from the amplitude, and at times erratic nature, of its economic fluctuations.

In a later chapter attention is directed to an analysis of international relationships in which the external influence of the United States is inevitably a powerful factor. Before such an analysis can be undertaken, it is necessary to examine domestic developments in that country.

In the latter half of 1935 and the beginning of 1936, there was abundant evidence of increasing production, rising prices and incomes, greater employment and larger consumption. It is difficult in such a situation even to guess at the extent to which recovery is due to such factors as Government policy, monetary ease, returning business confidence or cyclical developments arising from a better balance of economic forces. Indeed, it is only necessary to reflect upon the changing combination of influences that flow from Government policy to realise how hazardous such guesses must be. There were great and spectacular shifts of policy in many directions. A series of Supreme Court decisions swept away the legal basis of the National Recovery and Agricultural Adjustment Administrations, together with other important experiments. Moreover, other cases are pending and it must necessarily be some years before the constitutional validity of all the New Deal programme, including the legislative substitutes adopted after the first projects were ruled out, can be finally determined. The Soil Conservation Act signed on March 1st, 1936, goes far to replace the Agricultural Adjustment Act. The Guffey Act regulating the coal-mining industry is a partial substitute for the National Recovery Act, but has itself been declared unconstitutional. New methods are being tried to achieve the control and sustenance of particular forms of agricultural production such as cotton and tobacco growing. Meantime, other laws such as the Social Security Act signed on August 14th, 1935, may be challenged.

The markets were little perturbed by these judicial changes and uncertainties. Indeed, the steadiness with which economic activity increased despite them and despite the approach of the Presidential election campaigns suggests that economic as distinct from political influences were regaining their ascendancy. This is all the more remarkable since the budgetary situation was further unbalanced by the A.A.A. decision and new tax proposals were therefore presented to Congress. When the Veterans' Bonus Bill was passed over the President's veto on January 27th, and was promptly followed by additional tax proposals, there was some hesitation and a temporary loss of confidence; but this appears to have been due largely to fears of prospective inflation leading to a withdrawal of foreign funds rather than to domestic apprehensions. The recovery, widely spread over many industries, has marched ahead despite Government setbacks or judicial victories such as the Supreme Court decision validating the Tennessee Valley Authority's activities in certain respects.

The fact should be stressed, however, that a large part of the Government's programme remains operative. In two respects at least, this continuity is particularly important. Since January 1934, the dollar, though not definitely stabilised, has been controlled on gold-standard principles. For most of that time, gold flowed in large quantities to the United States; but, for a brief period early in February, fears of renewed depreciation caused funds to be withdrawn from New York and small quantities of gold were exported to France and the Netherlands [1] The Gold Reserve Act had been prolonged for a year and the passing of the Bonus Bill led to inflation rumours. The readiness with which export permits were granted quickly caused these rumours to subside and the customary gold imports were resumed. During 1935, the United States imported gold to the value of $1,741 million, considerably more than the total world production in that year. The gold stock of the United States rose continuously to the unprecedented figure of more than $10,000 million. The continuous inflow of foreign funds seeking refuge in the United States stimulated the stock market, particularly after the alarming political developments in the last quarter of 1935 caused a renewed flight of capital from the gold *bloc*. This inflow slackened in February, but was resumed in March, though the prospect of differential taxes upon incomes derived from foreign capital had some restraining influence. Both by the attraction of these funds to the New York money market and by the increased foreign trade that was facilitated by exchange stability, the continuity of monetary policy exerted a favourable influence upon recovery.[2]

The second respect in which Government policy helped in 1935 to sustain recovery was by the continuance of heavy expenditures for unemployment relief, public works, housing and agricultural subsidies. Whatever may be the ultimate effects of such expenditures upon the budgetary situation, their immediate results sustained purchasing power in several directions where otherwise incomes might have fallen. The liquidity of the money market was such that, except for a passing miscalculation of the market in August, no difficulty was experienced in floating the necessary loans. In the first week of March 1936, for example, loans amounting (with conversion issues) to $1,809 million were heavily over-subscribed, and of that total $650 million represented new 12-15-year issues at 2¾% and $600 million a new 5-year issue at 1½%.

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[1] An amount of $10,000,000 was also made available to the Central Bank of China on February 13th, presumably in payment of silver purchases.

[2] It may be noted also that the modifications of the silver-purchase policy in December 1935 did not affect the domestic market, the Treasury continuing to buy all silver mined in the United States at 77.57 cents per ounce. During 1935, silver production in the United States increased by 40% over 1934.

The amounts paid out for extraordinary expenditures amounted to very considerable sums, as the following table indicates. Nor was there in early 1936 any indication that such payments would slacken in the near future. Indeed, the replacement of the Agricultural Adjustment Act by the Soil Conservation Act, the announcement of a new basis for cotton loans, and the development of relief expenditures from the fund of $4,880 million made available by previous Congresses were supplemented early in 1936 by the requirement to pay veterans' bonuses variously estimated at amounts totalling up to $2,000 million.

Statistics of Federal Government Expenditure, 1934/35.

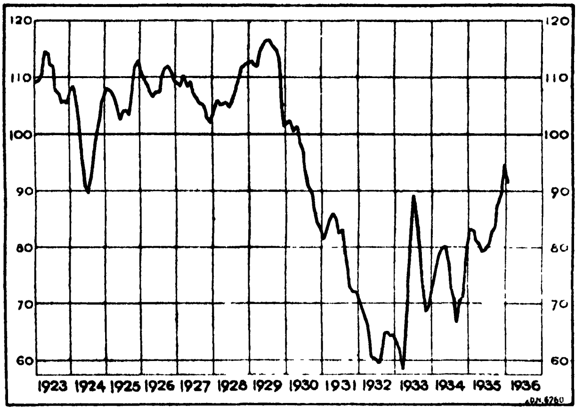
$ (000,000's).

	1934	1935
Legislative, judicial, executive . . .	32	36
Civil departments and agencies . . .	574	513
National Defence	480	534
Veterans' pensions and benefits . . .	556	606
Agricultural Adjustment Act	—	743
Civilian Conservation Corps	—	435
Debt charges: interest	757	821
retirements	360	573
Refunds	63	45
Recovery and relief	4,283	3,069
Total	7,106	7,375

With the currency held stable at a low level in relation to foreign currencies, continued heavy Government expenditures, a constant inflow of gold and a flight of capital from abroad, the monetary situation remained extremely easy. There was a substantial recovery of industrial production and, at the end of 1935, the *Annalist* index of business activity had gained 22½% in the year and was back again to the levels of 1930 and well above those reached in the first spurt of recovery that ended in July 1933. A short recession in January was quickly recovered and in the spring of 1936 the indices were again moving upward.

Index of Business Activity in the United States.[*]

(Estimated normal = 100.)



While rearmament demands seem to have exerted some influence, particularly on the demand for non-ferrous metals, the widespread nature of the recovery showed clearly that it was caused mainly by domestic factors. The production of electrical energy reached a new record high level, there was a distinct increase in building, a record consumption of wool and rayon, much larger retail sales, and steadily increasing demand for durable goods, such as automobiles, refrigerators, air-conditioning apparatus and radios. In consequence of the demand for durable goods and renewed purchases of railroad equipment, the production of steel was much higher than in 1934. Perhaps most significant of all there was a heavy increase in the demand for machine tools and productive equipment as manufacturers prepared for further recovery.

The extent of recovery in 1935 may perhaps best be summarised by reproducing on the following page a table from the *Annalist.*

At the same time, there was a sustained rise and increased activity in the stock markets practically throughout the year. Credit was abundant and cheap, so that a great volume of industrial conversions took place. New capital issues increased, but the amount was still small compared with pre-depression figures. The re-emergence of profits, however, was more marked than in the previous year.

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[*] *The Annalist*, February 21st, 1936, page 291.

Indices of Economic Recovery in the United States.[a]

(Base: 1923-1925 = 100.)

Index:	Dec. 1929	Dec. 1932	Dec. 1934	Dec. 1935	Percentage gain in 1935 over 1934
Industrial production[b]	99.0	66.0	86.0	100.0	+ 16.3
Consumers' expenditure	.	.	95.0	105.6	+ 11.2
Department store sales	108.0	60.0	78.0	84.0	+ 7.7
Employment	100.6	62.7	78.9	85.3	+ 8.1
Pay-rolls	99.9	41.7	63.9	77.4	+ 21.1
Wholesale prices	92.7	62.2	76.4	80.2	+ 5.0
Cash farm income[c]	97.5	37.5	61.3	...	...
Cost of living	98.4	73.8	79.4	83.3	+ 4.9
Construction contracts:					
Monthly index	95.6	24.2	27.5	79.0	+ 187.3
Moving average	103.8	27.5	29.8	...	...

[a] *Cf. Annalist*, January 18th, 1935, January 17th, 1936.

[b] The percentage of depression losses recovered in December 1935 by leading industries is given as follows:

	%		%
Wool consumption	123.1	Pig-iron production	50.0
Electric power production	105.2	Zinc production	44.7
Automobile production	78.6	Lumber production	39.9
Cotton consumption	70.2	Silk consumption	33.8
Boot and shoe production	66.9	Freight-car loadings	32.1
Steel-ingot production	52.2	Cement production	20.5

Combined index 60 %

[c] 1924-1929 = 100; including A.A.A. payments.

The coincidence of a rising stock market with accumulating gold stocks and credit reserves gave rise to some apprehension of credit expansion getting out of hand. The unprecedented increase in monetary reserves was caused by heavy Government expenditures and capital imports swelling bank deposits, while commercial demands remained low despite the considerable measure of recovery. In November 1935, the excess reserves of the member banks held in the Federal Reserve Bank reached a peak of $3,061 million, considerably more than 100% in excess of their statutory requirements. Rediscounts had fallen to negligible amounts, so that there was evidently considerable room for credit expansion if and when commercial demands revived. In October, the chairman of the New York Stock Exchange made public a warning against the dangerous possibilities of this situation and in November the Advisory Council of the Federal Reserve Board urged action to counteract these possibilities. The Board itself had been reconstituted under the Banking Act of 1935 and, on December 22nd, it issued a statement deprecating action to restrict credit on the ground that industrial recovery needed a continuance of cheap money and that the recent stock market rise had not been based upon loans. In January 1936, however, in order to forestall undue speculative activity, the margins required on brokers' loans were increased as from February 1st. At the same time, the Treasury announced that, in order to avoid a further increase in excess reserves, payments would be drawn on the Government credit in commercial banks rather than Federal Reserve Banks.

In December 1935, excess reserves declined from the highest point; but they remained around $3,000 million until the end of March 1936. The import of gold from abroad slackened also, but was later renewed with increasing international tension in Europe. There is therefore at present no substantial reason for expecting a reversal of recent upward trends. Political controversy in an election year, uncertainty regarding tax programmes, and the repercussions of international events may work towards hesitation, but the long-run factors appeared favourable at the beginning of 1936. Prices and costs were low, there was still much leeway to be made up before production, particularly of durable goods, returned to normal and the credit situation was very easy. At the same time, apprehensions of progress towards cumulative credit expansion on a gold basis concerned the middle rather than the immediate future. There appeared little prospect of such a rapid utilisation of the abundant credit now available as might create a situation in which rising prices and interest rates would become necessary.

The machinery available for controlling such a credit expansion consists primarily of open-market operations or the raising of reserve requirements by the Federal Reserve Bank. The commercial banks are at present so little indebted to the Federal Reserve Banks that raising the latter's rediscount rate could hardly have more than a symbolic effect. The Government securities owned by the Federal Reserve Bank have for some months remained at a total of $2,400 million, so that even the sale of a considerable proportion of them could probably not be counted upon to counteract expansion at a time when excess reserves amount to over $3,000 million. The requirement of increased statutory reserves made possible by the Banking Act of 1935, therefore, was regarded as perhaps the chief instrument of monetary control. The timing of any such action, however, presents a delicate problem. Measures to make credit dearer and more difficult to obtain must take account, not only of the needs of the Treasury, but also of legitimate commercial needs at a time when recovery is by no means complete. Whether it will be possible to judge accurately the moment when pressure on the money market will check dangerous speculative tendencies without interfering with genuine recovery or whether some form of qualitative selection can be devised are questions upon which opinions differ sharply. There is equal difference of opinion concerning the effectiveness of any probable action, both because of the magnitude of the expansion now possible and because of the manner in which such expansion develops obscurely through channels difficult to watch and measure.

At the beginning of 1936, the United States was experiencing much the same development as took place earlier in such countries as Japan, Sweden and the United Kingdom. Confidence was returning and advantage was being taken of cheap money to readjust industrial debt. Building was definitely greater and the consumption of durable goods was increasing, while there were signs of preparation for new capital investments. The potentialities of expansion, however, remained very great and the recovery gathered way rather slowly. There were few signs of diminishing Government expenditure, economies in some directions having been more than offset by new commitments, such as the bonus payments, and by the loss of revenues resulting from the Agricultural Adjustment Act decision of the Supreme Court. From the point of view of international relations, the relative slowness of the recovery, the failure of prices to rise fast enough to counteract exchange depreciation and the continued attraction of the precious metals rather than commodity imports have an important bearing on recovery elsewhere. Imports have, in fact, increased more than exports, but not sufficiently to avoid the necessity for gold and silver imports. The strain upon international equilibrium resulting from this situation is discussed in a later chapter.

Chapter II.

INCREASED PRODUCTION AND NATIONAL SELF-SUFFICIENCY.

Self-Sufficiency in Food Supplies.

"World production" is a comprehensive term. Aggregate measurements of the widespread and diversified phenomena it covers almost inevitably fail to present an adequate picture of the detailed realities of economic change. Even when distinctions are made between different forms of production, such as agricultural, mining or manufacturing, and between the developments in great geographical areas, aggregation tends to obscure significant movements of detail. A striking example is provided by the statistics of world production of foodstuffs. The index of total production in the world as a whole has not greatly changed in the last eight years. It stood at 104 in 1928 and was still 104 in 1935, having never risen above 106 or fallen below 103 in the intervening years.

The indices calculated for the great continental areas have been less stable, but fail to disclose the full extent of the reorganisation of food supplies that is in progress. Only by analysing the constituent elements that have gone to the making of these indices can a clear picture of recent developments be obtained.[1]

Before the outlines of these developments are sketched, however, attention may be drawn to the fact that the stability of total production of foodstuffs in recent years follows what had been a continuously rising trend of production. Between 1925 and 1928, the index rose by 8%. The latter happened to be an exceptionally good harvest year, but the upward trend of production had been in evidence for many years previously. Food production was increasing faster than population until the recent depression set in.

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[1] *Cf. World Production and Prices, 1935/36*, Geneva, 1936, from which the statistical material for this chapter has mainly been drawn.

The indices of production on which these statements are based do not include certain kinds of foodstuffs — vegetables, fruit, poultry, eggs — the demand for which has increased rapidly in recent years, but which for obvious reasons do not lend themselves readily to statistical measurement.[1] It is improbable that their increased rate of production in the last eight years has compensated for the arrested production of other foodstuffs. This does not necessarily mean that an increasing world population is consuming less food per head, though such a statement may be true of certain areas and in respect of certain kinds of food.

Indices of World Production of Foodstuffs, 1929-1935.[a]

(Base: Average 1925-1929 = 100.)

Continental group	1929	1932	1933	1934	1935*
Europe, excluding the U.S.S.R.	107	112	114	115	115
U.S.S.R.	102	81	86	86	92
Europe, including the U.S.S.R.	106	104	106	107	109
North America	100	100	101	105	90
Latin America	99	100	106	105	101
Africa	108	116	111	118	122
Asia, excluding the U.S.S.R.[b]	102	105	108	101	101
Oceania	103	130	130	131	133
World total, excluding the U.S.S.R.	103	107	109	109	106
World total, including the U.S.S.R.	103	104	106	106	104

[a] *World Production and Prices, 1935/36*, Geneva, 1936.
[b] Excluding China, with the exception of Manchuria.
* Provisional.

The indices, not only of foodstuffs but of all primary production, have been recalculated upon bases different from those used in previous years. More material has become available and the new indices are therefore more complete than the old. For the food group, the recalculation has given results which for some areas, notably the Union of Soviet Socialist Republics, North America and, in 1933 and 1934, Oceania, differ considerably from the old index. The total index for the world as a whole is not greatly affected, nor are the indices for continental areas other than those mentioned above; but it is necessary to explain the discrepancies, all the more because such explanation throws a good deal of light upon recent developments.

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[1] Some indications of increased production are contained in "Mixed Committee on the Problem of Nutrition — Documentation prepared by the International Institute of Agriculture", Geneva, 1936.

The chief points of difference between the old index and the new one are the inclusion of new commodities in the latter, the separation of "fodder crops" from the food group, and revised production estimates of certain commodities, notably meat. Of the new commodities in the food group, the production of sea-fish and whale-oil (which is used in the manufacture of margarine) has been increasing much more rapidly than that of most other commodities, while the production of milk has increased at rather more than the average rate.[1]

The greatest changes in the index, however, have been caused by revised estimates of meat production, and by the omission from the food group of the fodder crops — barley, oats and maize. These changes have been particularly important in the indices for the Union of Soviet Socialist Republics and North America.

For the Union of Soviet Socialist Republics, the revised index, giving greater weight to milk and meat, and separating fodder crops such as maize from the food crops grown for human consumption, has the effect of accentuating the fall in production in the years 1931 and 1932 and of minimising the recovery since that date. The fall was caused by peasant resistance, in many areas, to the Government programme of collectivisation. Crops were reduced for a time, but the most serious reduction was in animal products. There was excess slaughtering in 1930 and thereafter a much lower animal population.

In the United States, the revised index follows a course very different from that of the index formerly used. There are two principal reasons. The first is the separation of fodder crops from food crops, the statistics for which are given below:

	1925	1929	1932	1933	1934	1935
Food crops.	85	91	96	68	66	76
Fodder crops	107	94	107	82	52	87

It is clear that the inclusion of fodder crops raised the food index in 1932 and 1933 and lowered it in 1934. The more important factor, however, was the effect which the shortage of fodder crops in 1933 and 1934 had upon meat production.

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[1] The indices (for the world as a whole) were as follows:

(Base: Average 1925-1929 = 100.)

	1925	1929	1932	1933	1934	1935
Sea-fish	93	110	114	126	131	...
Whale-oil.	79	143	69	197	195	204
Milk	96	104	107	107	107	...
Total food	96	103	104	106	106	104

The production of milk in Europe (excluding the U.S.S.R.) and in Oceania, however, increased much more rapidly than in other areas.

The widespread drought caused emergency slaughtering on a great scale. It is difficult to get reliable estimates, but the new information used in calculating the revised index this year gives a sharp rise in meat production from 98 in 1932 to 109 in 1933 and to 123 in 1934, followed by an even sharper decline to 83 in 1935. The weight given to meat is so heavy that these changes cause the index of food production to rise in 1933 and 1934, whereas the former index fell in both years.

The only other discrepancies calling for explanation are the tendency for the new index in Europe (excluding the U.S.S.R.) to rise faster than the old index and the similar tendency in the index for Oceania. The former is due to the inclusion of milk production in the new index. The inclusion of milk is also the main cause of the increase in the new index for Oceania; dairy production has expanded considerably in Australia and New Zealand.

With these explanations in mind, it is easier to follow the changes that have been taking place in the production of the world's food supplies. Within a relatively stable grand total there has been a great shift both in the geographical distribution and in the commodity composition of world production. Broadly, this shift is towards increasing self-sufficiency in the great industrial areas — formerly the chief markets for the export surpluses of the agricultural and pastoral countries in Central and Eastern Europe and outside Europe.

The expansion of agricultural production in industrial Europe is perhaps most marked in the case of wheat; but it is clear also in the maintenance or increase of other food crops such as rye and potatoes, as well as in milk and butter production and in meat. Some illustrations may serve to prove this general tendency. The table on the next page shows for a number of countries the production of various foodstuffs in 1931-1935 as a percentage of the average production in 1925-1929.

The extent to which food production has increased in these countries is very striking, although the wheat-producing areas of the Danubian region have been affected by the extension of wheat-growing in their former markets. The expansion of butter production in some of the Baltic countries is largely due to subsidies. There has been a decline in Denmark each year since 1931.

This considerable expansion of food production in Europe has been caused partly by Government protective policies, partly by exchange restrictions designed to maintain domestic prices, and partly by lack of foreign exchange with which to purchase imports. The closing of what formerly were great markets involved considerable difficulties for the food-exporting areas in Europe and elsewhere. The first result was to concentrate exports upon a few markets where trade remained relatively free. Belgium, the Netherlands and the United Kingdom were the principal markets so affected, and in all three restrictions have been imposed upon imports in recent years. As the world market narrowed, prices fell and, except in the British Dominions, for which the United Kingdom market remained open, the exporting countries were forced to curtail their production or to provide increasing subsidies for selected exports.

The Production of Certain Foodstuffs in European Countries in 1931-1935 as Percentages of Production in 1925-1929.* [a]

Countries	Wheat	Rye	Potatoes	Butter	Meat
Austria	116	116	111	.	92
Belgium	103	98	106	105	104
Bulgaria	126	121	200	.	129
Czechoslovakia	118	105	103	117[d]	104
Denmark	118	86	123	118	134
Estonia	200	127	123	130	130
Finland	233	117	152	121	102
France	108	91	110	128[e]	95
Germany	148	102	117	149	114
Greece	179	150	225	.	107
Hungary	94	93	86	190	95
Irish Free State	267	50	107	.	137
Italy	117	94	122	.	99
Latvia	267	129	172	163	122
Lithuania	147	110	137	693	101
Netherlands	238	105	91	108	103
Poland	120	103	117	.	124
Portugal	179[b]	109	203	.	116
Roumania	92	119	91	.	108[f]
Sweden	156	86	108	136	134
Switzerland	118	88	107	176	112
Turkey	133	175[c]	186	.	125
United Kingdom	108	60	94	.	109
U.S.S.R.	121	100	122	.	64
Yugoslavia	96	111	132	.	90

[a] For more detailed statistics of the production of these and other commodities during the last ten years, see *Statistical Year-Book of the League of Nations, 1935/36*, Geneva, 1936. The volume entitled *World Production and Prices, 1935/36*, contains brief reviews of the production of the principal commodities which enter into the calculation of the index of world production.

[b] Average 1931-1934 instead of 1931-1935.

[c] Average 1925, 1927-1929 instead of 1925-1929.

[d] Figure for 1927 instead of 1925-1929 average, and 1933-1934 average instead of 1931-1935 average.

[e] 1926 figure instead of 1925-1929 average.

[f] Young cattle production not included.

* Estimates for 1935 figures.

One consequence of these developments has been the stimulation of industrial development in the agricultural countries which is discussed later. An outstanding example of the turnover from agricultural to industrial production is provided by Denmark. Between 1931 and 1934, butter production in that country fell by 6%; while the number of pigs slaughtered between 1931 and 1935 fell by nearly 40%. In the same period, industrial production increased by 21%.

The world market for the staple foodstuffs has been relieved in recent years also by the decline of exports from the Union of Soviet Socialist Republics and the United States. A somewhat unexpected element has entered into the decline in both cases. The large sales of Russian wheat which contributed to the confusion of the world market at the depth of the agricultural depression virtually ceased in 1931. Wheat production in the Union of Soviet Socialist Republics has greatly expanded in recent years, rising from 202.5 million quintals in 1932 to 313.3 million quintals in 1935;[1] but practically the whole of this extra production has been absorbed on the home market. After the slaughtering of live-stock in 1930/31, there is again a marked increase in the number of animals.[2] The main reason for the smaller volume of food exports despite these gains in production appears to have been an improvement in the external balance of payments. The progress of the Five-year Plans has lessened the need for imported machines, while the rapid increase in gold production has furnished an acceptable means of external payments.

The decline of agricultural production in the United States of America is due to a combination of subsidised restriction and drought. In 1933, the restrictive measures were the most important factor, while in 1934 and 1935, widespread drought conditions diminished the production, not only of foodstuffs destined for human consumption, but also of fodder crops. The lack of fodder caused a great increase of slaughterings in 1934, but in 1935 the index of food production dropped from 105 to 90, mainly because of a decline in meat production. Prospects for the harvest of 1936 are again menaced by bad weather conditions, and the United States is in consequence consuming its accumulated stocks of wheat and importing foodstuffs, while its agricultural exports, which have greatly declined in recent years, seem likely to decline further in 1936.

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[1] The equivalent figures in bushels are 744 and 1,153 millions.

[2] The main figures for the last three years are:

	1933	1934 (000,000's)	1935
Cattle	38.4	42.4	49.3
Sheep and goats	50.2	51.9	61.1
Pigs	12.1	17.5	22.6

The stable world index of food production therefore conceals very important changes in the distribution of production, changes that are reflected in the structure of international trade and in price-levels. Without the disappearance of surplus exports from the Union of Soviet Socialist Republics and the United States, the increased self-sufficiency in respect of foodstuffs that has been achieved by the great industrial countries of Europe would have caused much greater disturbances in the world market than it has. Price-levels would have been further depressed and agricultural-exporting countries such as those of Eastern Europe, South America and the British Commonwealth would have suffered severely, while the maintenance of extended production and relatively high agricultural price-levels in industrial Europe would have necessitated even more drastic restrictions in imports. In part, therefore, the disappearance of accumulated stocks and the rise in prices of foodstuffs has been the result of bad weather in the United States for several years in succession. A return to more normal crop conditions, in default either of fresh restrictions on production or freer international trade, may well cause difficulties once again in the world market for such products as wheat.

THE SLOW RECOVERY IN AGRICULTURAL RAW MATERIALS.

The production of agricultural raw materials for industrial manufacture, as well as that of fodder crops, increased in 1935; but in both cases the index remained below the average level of 1925-1929. This development is in striking contrast with that of the production of non-agricultural raw materials. It appears to be due in part to temporary causes: notably the sharp reduction in agricultural production as a whole in the United States because of drought conditions, and the reduced production in other areas — *e.g.*, of wool in Australia and New Zealand. The natural result of these shortages is seen in the rising price-levels, to which attention is drawn in the next chapter. In part, however, the relatively slow rate of recovery in the production of agricultural raw materials would appear to reflect shifts of demand caused by the import restrictions imposed on agricultural raw materials and foodstuffs in some European industrial countries. Thus the reduction by 40% in the number of pigs slaughtered in Denmark (caused primarily by import restrictions in the United Kingdom and Germany) reduces the need for imported grains, while the restrictions imposed on imports of textiles, vegetable oils, etc., into Germany have been more drastic than those imposed on non-agricultural raw materials. Indeed, the turn which industrial recovery took in most countries in 1935 was towards increased production in the heavy industries rather than in the consumption industries such as textiles.

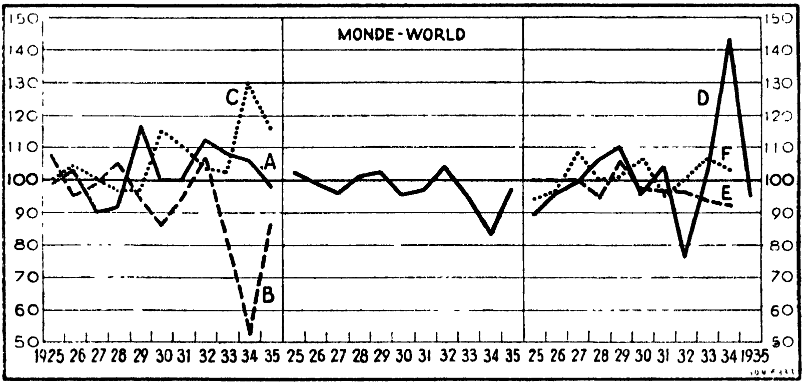
The indices of world production of the fodder crops — barley, oats and maize — now available for the first time, reveal certain interesting phenomena. As will be seen from the next diagram, the index, being calculated for a smaller number of commodities the production of which is concentrated in a few important areas, fluctuates more than that of foodstuffs. The most important factor in these fluctuations is the varying production of maize in the United States. In 1934, owing to the drought, the index for North America fell to about half that of the base period 1925-1929. This decline is reflected in the world index despite great increases in Latin America and Africa, where production is on a smaller scale than in the United States.

There is a particularly interesting inverse correlation between the production of fodder crops in North America and in Latin America. The statistics used in compiling the indices are those of the calendar year for North America and of the following harvest year for Latin America, so that the effect of high or low production in the United States is reflected, for example, in the production of maize in the Argentine. The diagram leaves no doubt as to the intimate connection that exists between production in these areas.

Production of Fodder Crops, 1925-1935.

(Base: Average 1925-1929 = 100.)

A Europe, excluding U.S.S.R.
B North America.
C Latin America
D Africa.
E Asia.
F Oceania.



It will be noticed also that there is no clear tendency for the production of fodder crops to increase in Europe, as the production of foodstuffs has increased. This difference mainly reflects a shift to agricultural as distinct from pastoral farming in many countries: it is easier to achieve self-sufficiency in foodstuffs by concentrating upon the production of the less expensive vegetable foodstuffs such as bread and potatoes rather than animal products.

The main industrial raw materials of agricultural origin are textile materials such as cotton, wool and silk, and vegetable oils. The indices of production of these raw materials are summarised in the following table. The addition of new textile materials has resulted in a fairly considerable change in the European index, excluding the Union of Soviet Socialist Republics.[1] Calculated by the former method, the index for 1934 was 84. The addition of three "hard" textile fibres, mohair and staple fibre brings the figure to 92. This gives further evidence of the trend towards agricultural self-sufficiency in Europe. The indices for other areas and for the world as a whole are not affected to the same extent.

World Production of Raw Materials of Agricultural Origin, 1925-1935.

(Base: Average 1925-1929 = 100.)

Continental group	1925	1929	1932	1933	1934	1935
Europe, excluding U.S.S.R.	95	115	84	89	92	98
U.S.S.R.	92	113	112	111	112	128
Europe, including U.S.S.R.	93	114	96	99	101	112
North America	104	98	88	88	68	76
Latin America	97	101	93	112	130	123
Africa	97	112	98	116	109	117
Asia, excluding U.S.S.R.	96	103	94	103	101	98
Oceania	91	103	114	109	110	104
World	98	104	94	100	95	98

The heavy decline in the index for 1934 was mainly due to a sharp fall in cotton and cotton-seed production in the United States. The slight recovery in 1935 was caused by larger cotton and cotton-seed production in that country, in which, however, production remains at a low level. There was also an increase in vegetable-oil materials in Asia, notably in India, and in textile crops in Europe. On the other hand, the linseed crop in Latin America fell heavily, and there was a reduction also in the wool clip of Australia and New Zealand.

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[1] Tobacco and rubber, formerly included in this group index, are now transferred, the former to the food group, the latter to non-agricultural raw materials.

If these three groups — foodstuffs, fodder crops and raw materials of agricultural origin — are combined in an index of agricultural production, it will be seen that there has been little change in world production during recent years.

World Agricultural Production, 1925-1935.

(Base: Average 1925-1929 = 100.)

Continental area	1925	1929	1932	1933	1934	1935
Europe, excluding U.S.S.R. .	97	108	111	112	113	113
U.S.S.R.	93	103	83	90	92	97
Europe, including U.S.S.R. .	96	107	103	106	107	108
North America	99	99	101	95	88	88
Latin America	97	99	100	106	110	105
Africa	96	109	104	111	113	116
Asia, excluding U.S.S.R. . .	98	102	103	106	101	100
Oceania	94	103	126	125	126	126
World	97	103	103	104	102	102

Geographical changes in the distribution of total production represent the aggregate of those already analysed for the various groups. The United States and the Union of Soviet Socialist Republics remain well below pre-depression levels, but agricultural production in the latter is increasing, while in the former an increased production of cotton and cottonseed in 1935 compensated a decrease in that of foodstuffs and fodder crops, the total remaining at the same figure. The most notable developments in other areas are the great increase shown for Australia and New Zealand, and the substantial increases in Europe and Africa of recent years.

Industrial Raw Materials of Non-agricultural Origin.

The principal modifications in the index of production of non-agricultural raw materials caused by its recalculation arise from the inclusion of rubber, which affects the index for Asia, from the revised estimates of artificial-silk production in the Union of Soviet Socialist Republics, and the substitution of ore content of metals for smelter production in Africa. The new index, like the former calculation, reflects a sharp recovery in production in 1934, and this recovery continued in 1935. The dominating commodities in the index continue to be the fuel and metal groups.

World Production of Raw Materials of Non-agricultural Origin, 1925-1935.

(Base: Average 1925-1929 = 100.)

Continental group	1925	1929	1932	1933	1934	1935
Europe, excluding U.S.S.R. .	90	115	80	87	97	104
U.S.S.R.	61	137	193	215	271	323
Europe, including U.S.S.R. . .	88	117	88	96	110	120
North America	91	111	59	69	75	84
Latin America	87	123	71	75	95	104
Africa	90	113	87	100	124	133
Asia, excluding U.S.S.R. . .	86	118	108	122	143	154
Oceania	99	98	81	89	97	109
World	89	114	75	84	95	104

It will be seen that the index of world production, which in the depression fell much more than the index of raw materials of agricultural origin, had by 1935 passed the average level of 1925-1929, though it was still below the peak of 1929. In the last three years, the index has increased by 37%, thus recovering about three-quarters of the ground lost during the depression years. The greater part of the decline in production took place in North America, but since 1932 recovery there has been rapid. Since 1932, the index has increased by 42%, but in 1935 it still remained about 34% below the peak of 1929. European production, excluding the Union of Soviet Socialist Republics, did not fall as much as the world average during the depression, but has since recovered more slowly. The rapid increase of production shown for Africa represents mainly copper production in Northern Rhodesia and the Belgian Congo. That for Asia represents mainly increased production of rubber in the Netherlands Indies and British Malaya, tin in British Malaya, and steel and cement in Japan. The most striking increases shown in the table are those for the Union of Soviet Socialist Republics, somewhat exaggerated by being calculated from rather low bases, but nevertheless representing very substantially increased production of coal, iron and other metals, as well as remarkable advances in the production of hydro-electric energy. Reference has already been made to the rapid industrial development in the Union of Soviet Socialist Republics which is reflected in this index of raw-material production.

REDUCED STOCKS OF RAW MATERIALS.

The total world production of raw materials, in so far as it is measured by the indices given below, rose in 1935 by about 8%; slightly more than in 1934, but less than in 1933. It was still about 8% less than in the peak year 1929. If the greatly enhanced production of the Union of Soviet Socialist Republics is excluded, the increase is less, and the index for 1935 is more than 12% below that of 1929. Nevertheless, raw-material production in 1935 progressed substantially throughout the world, except in Oceania, where the wool clip was smaller than usual. The index probably provides a reliable guide to changes in actual production, though it does not include raw materials used in the food, drink and tobacco industries and excludes others for which statistical data are lacking. There is a rapid increase in the production of certain materials which are used in the newer industries. Thus the production index of artificial silk has increased from 145 in 1929 to 300 in 1935, and that of staple fibre (a new variety of artificial silk also produced from wood-pulp but by a cheaper process) from 280 in 1929 to 5,300 in 1935. Other very substantial increases have been registered in the production of nickel (the index of which rose from 52 in 1932 to 177 in 1935) and certain steel alloys (for example, molybdenum, the index for which rose from 101 in 1932 to 391 in 1934).[1] Hydro-electric energy has also been produced in greater volume, the index rising from 120 in 1932 to 148 in 1935.

World Production of Raw Materials, 1925-1935.

(Base: Average 1925-1929 = 100.)

Continental group	1925	1929	1932	1933	1934	1935
Europe, excluding U.S.S.R.	90	115	80	87	97	103
U.S.S.R.	75	126	155	166	197	232
Europe, including U.S.S.R.	88	116	89	96	109	119
North America	93	109	63	72	74	83
Latin America	91	116	79	87	107	110
Africa	95	112	90	112	113	122
Asia, excluding U.S.S.R.	92	109	100	111	117	120
Oceania	94	102	104	103	106	105
World	91	112	79	88	95	103

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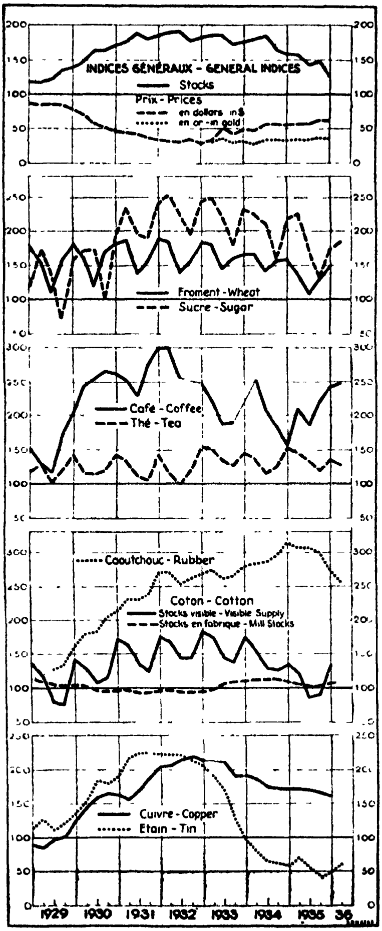
[1] Further details may be found in *World Production and Prices, 1935/36.*

As in other fields of production, the decline in the United States up to 1932 was greater than in the rest of the world, while since that year raw-material production has increased in the United States by 32%, which is a faster rate of recovery than that registered in Europe (excluding the U.S.S.R.) or in the world as a whole. The index for the United States in 1935 remained, however, about 24% below the peak level of 1929.

Movement of Stocks of Primary Commodities.

(Base: Average 1925-1929 = 100.)



It will be shown later that industrial activity has increased more than the production of raw materials might indicate. In part, this is the result of improved technique which has economised materials; in part also, it may be due to the use of scrap material, which has been encouraged by the rising prices of new material and the efforts being made in many countries to attain a greater measure of self-sufficiency. The major reason for the discrepancy between the indices of raw-material production and industrial activity is, however, to be found in the decline of accumulated stocks.

The diagram opposite shows the movement of " visible stocks " for a number of staple commodities, including certain foodstuffs as well as raw materials. The diagram shows the indices of stocks and of prices compiled by the United States Department of Commerce, together with indices of the stocks of certain important commodities.

It will be clear that there has, in most commodities and in the aggregate, been a fairly considerable decline in visible stocks during recent years and that the decline was continuing in the first half of 1936. The chief exceptions to this general trend were the increase of stocks of coffee in 1935/36 and the maintenance of cotton stocks during 1935. Unfortunately, no adequate statistics are available concerning stocks held by manufacturers as distinct from the "visible" stocks in the hands of producers and traders. What evidence there is points (except in the case of cotton) to an increase in manufacturers' stocks, as is normal during a period of increasing industrial activity.[1]

Further evidence of increasing industrial demand, leading to greater production of raw materials, is provided by the experience of some of the international control schemes. The quota of tin production, for example, has been steadily raised, until, for the third quarter of 1936, a quota of 90% (of production in the base period 1929) was allotted to the various producing areas with the exception of Bolivia (75%). This is a substantial increase from the quota of 32.6 allotted at the depth of the depression, in 1933. The production of rubber was reduced in 1935, but for the second half of 1936 the quota has been raised from 60% to 65%. The price, after rising from $2^{1}/_{3}$*d.* per lb. in 1932 to $6^{7}/_{32}$*d.* in 1934, dropped to 6*d.* in 1935 as stocks were released, but has since risen to 7 ½*d.* At the end of March 1936, stocks, which at the end of 1934 had equalled 8.7 months of world consumption, had fallen to 6.9 months of consumption.

Increased Industrial Activity.

The indices of production reviewed in the preceding sections have all been indices of primary production. It has been shown that, in the world as a whole, little change has been registered in the index of total production of foodstuffs, although — within this total — there have been great changes in the direction of ensuring greater national self-sufficiency of food supplies. Raw materials of agricultural origin have been produced in increasing volume — despite shortages of certain crops as a result of bad weather, in the United States, and to a less extent in Latin America and Australia and New Zealand. There has been a much greater increase in the production of non-agricultural raw materials, and this suggests, what is in fact the case, that the great increase of industrial activity which has accelerated in 1935 is mainly concentrated in the investment rather than the consumption industries. The following summary table

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Cf. World Production and Prices, 1936/36, Appendix I, Table 6.

brings together the various indices for the world as a whole, and compares them with changes in the quantum of world trade:

Indices of World Production and the Quantum of World Trade.

(Base: 1929 = 100.)

	1932	1933	1934	1935
Production:				
Foodstuffs	104	106	106	104
Fodder crops	102	93	81	94
Agricultural raw materials . . .	91	96	91	94
Non-agricultural raw materials .	65	73	83	91
All raw materials	71	79	85	92
Industrial activity: mining and manufacturing	70	78	85	92
Manufacturing only	69	78	84	93
World Trade:				
Foodstuffs	91	85	84	86
Raw materials	82	88	90	94
Manufactures	58	60	66	69
Total world trade	74.5	75.5	78.5	82

The index of industrial activity has been compiled by combining the national indices of production in twenty-four countries in an average weighted mainly according to the net value of industrial production in those countries. The methods by which the index is calculated are described in *World Production and Prices, 1935/36,* from which these figures are taken.[1] Building activity and the generation of electric power, both of which have increased rapidly in recent years, are not included in the index of manufacturing activity, which therefore somewhat understates the revival that has occurred in recent years.

Even without these elements, the revival has been substantial and is clearly again accelerating. In 1933 the gain was 13%, in 1934 9%, and in 1935 13%. Moreover, as will be shown later, the pace increased rapidly in 1936. Because of the great importance of production in the United States, fluctuations of industrial activity in that country have the greatest effect on the movements of the world index. The pace of recovery slowed up in the United States during 1934, but has since recovered and is now gathering way rather rapidly. For the world as a whole, including the Union of Soviet Socialist Republics, industrial production in 1935 was greater than it had been in 1928 and about 5% less than in 1929. In the meantime, world population (excluding China) has increased by about 9%, so that per head of population the index remains about 13% below 1929 levels.

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[1] See *World Production and Prices, 1935/36.*

Attention has often been called to the failure of world trade to increase as fast as national production. The index figures of the quantum of world trade show that the lag is greatest in foodstuffs and manufactured articles; but it is evident also in raw materials.

Before considering the geographical spread of the recovery in production, it is important to analyse the general nature of that recovery. *World Production and Prices, 1935/36,* from which the statistical material used in this chapter is taken, throws interesting light on this question from two points of view. In the first place, a distinction is drawn between three main classes of commodities which are described as producers' investment goods, consumers' investment goods and immediate consumption goods. The first class consists wholly of durable goods such as industrial, agricultural, trade and transport equipment, and semi-manufactures mainly intended for ultimate transformation into equipment or investment goods. The second class consists of durable or semi-durable consumption goods. The two most important items in this group, residential building and private motor-car production, are shown separately in the diagram which follows.[1] The third class consists of non-durable consumers' goods.

In all the countries except those of the gold *bloc* and Spain, where there has as yet been little if any recovery, the increase of production since 1932 has been greatest in producers' investment goods and in durable consumers' goods, including automobiles and residential building. The increased production of producers' investment goods is very marked in the Union of Soviet Socialist Republics[2] (which is not included in the diagram), Japan and Germany. It is, however, a very general phenomenon, by contrast with the much slower rise of consumers' goods in most countries. Building activity and automobile production have also increased very rapidly and have evidently played a leading part in the recovery.

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[1] *Cf.* also *World Production and Prices, 1935/36*, Table 11.

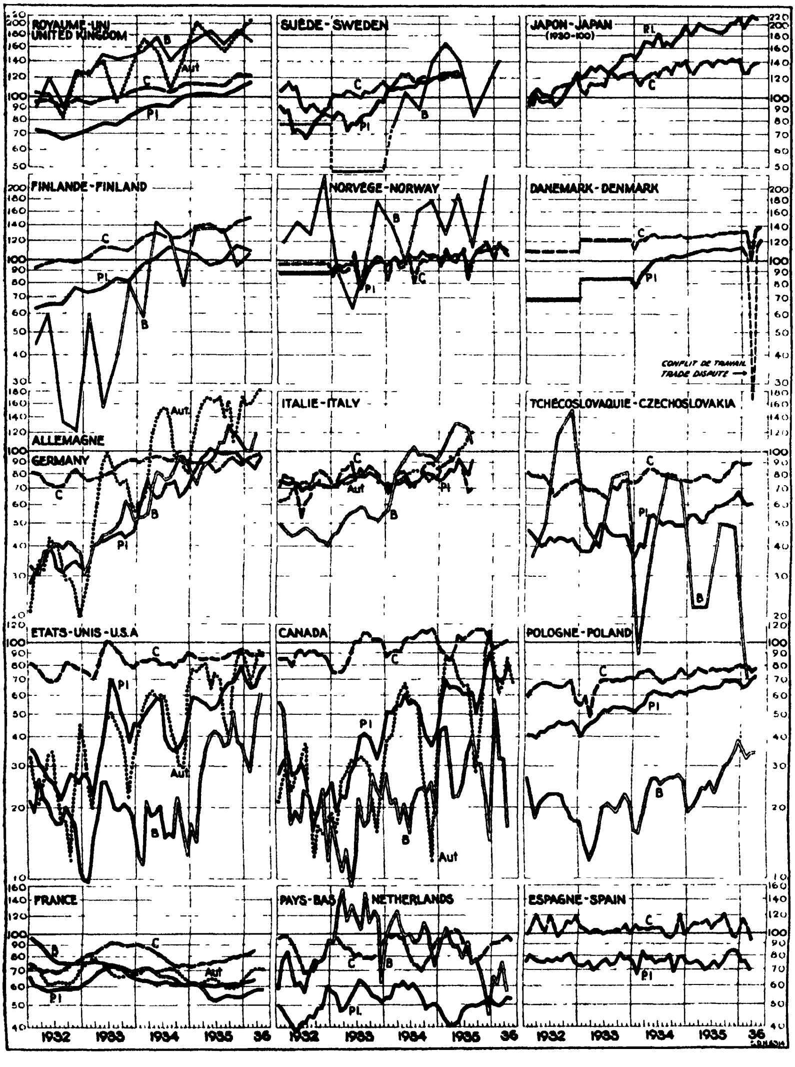
[2] The annual indices for the Union of Soviet Socialist Republics were:

	1929	1930	1931	1932	1933	1934	1935
Producers' investment goods . . .	100	142	183	213	235	292	362
Consumers' goods	100	120	140	154	163	186	218

Movement of Production of Investment and Consumers' Goods, 1932-1936.

P.I. = Producers' investment goods.
C. = Current consumption goods.
Aut. = Automobiles.
B. = Building.

(Base: 1929 = 100.)



The second aspect of the recovery to which attention may be drawn is the relation of increased production to employment. Utilising the employment indices prepared by the International Labour Office, but weighting them so as to render them more comparable with the production indices, *World Production and Prices, 1935/36* gives the following table summarising the movement of the index numbers of production and employment:

International Indices of Employment and Industrial Production.

(Base: 1929 = 100.)

		1932	1933	1934	1935
World, including U.S.S.R.:	Employment	78	80	89	92
	Production	69	78	85	95
World, excluding U.S.S.R.:	Employment	70	73	81	84
	Production	63	71	77	84
Europe, excluding U.S.S.R.:	Employment	79	80	85	87
	Production	70	76	84	89
North America:	Employment	62	66	75	79
	Production	54	64	67	76

During the years of depression, most undertakings endeavoured to keep their labour force together as far as possible. There was a good deal of short-time, the burden of unemployment was spread, and production indices therefore fell more than those of employment. Since recovery began in 1932, this tendency has been reversed. There is less short-time, so that the increase in the number of workers employed is less than the increase of production. In Europe as a whole, and particularly in the Union of Soviet Socialist Republics, the production index has risen above that of employment. The effort to give greater employment, which was particularly marked while the National Recovery Administration was effective in the United States, increased employment more than production in 1934; but this trend was reversed in 1935.

These figures suggest that there has been a substantial increase of productivity per unit of labour and therefore an index of man-hours worked has been compiled, the results of which are summarised in the following table (base: 1929=100):[1]

	1932	1933	1934	1935
Average hours of work	85	88	88	89
Employment	70	73	81	84
Man-hours worked	60	64	71	75
Industrial production	63	71	77	84

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[1] The index refers to nine industrial countries (among which the United Kingdom and the Union of Soviet Socialist Republics are not included) which represent about 77 % of world industrial production and 74 % of world employment. For details see *World Production and Prices, 1935/36.*

This table shows that production per man-hour increased slightly during the depression, but has since increased at a much faster rate. Since 1932, an increase of 25% in the man-hours worked has resulted in an increase of $33^{1}/_{3}\%$ in production. This increase in productivity per unit of labour is an important fact. Before 1932, it was probably due for the most part to the elimination of less-efficient production units. After 1932, the more effective utilisation of plant by the reduction of short-time doubtless contributed to increasing productivity; but gains of this sort diminish as recovery proceeds. Nevertheless, there was a distinct widening of the margin between the indices in 1935, which suggests that the chief cause of increasing productivity is improved equipment and management.

Separate indices calculated for the main areas of production bear out this conclusion. For the Union of Soviet Socialist Republics, data concerning hours of work are not available, but it may be presumed that there has at least been no lengthening of the working-day. Industrial production per head of wage-earners employed has increased remarkably, by approximately 64% between 1932 and 1935. In Europe (excluding the U.S.S.R.) the improvement of productivity has been less pronounced, but is still substantial whether measured with reference to the number of workers employed or to the man-hours worked. In North America, the increase of productivity was greater than in Europe before 1932, but has since been much less. Over the whole period 1929 to 1935, however, the gains in labour productivity in the United States have been greater than in Europe.[1]

In the summer of 1936, the latest statistics indicated a sharp acceleration of the upward movement of production in the world as a whole. The available monthly indices are summarised in the next table.

The most important movement in this table is the large increase shown for the United States. The increased production in that country was sufficient to bring the percentage increase for the year ending April 1936 to about 15% for the world as a whole. Another notable feature is an increase of production in France and the Netherlands during recent months. Despite a tendency for the pace of recovery to slacken in some countries where it began earlier than others, these factors — together with the continued rapid industrialisation of certain agricultural countries and the belated increases of production shown by Belgium and Czechoslovakia — were sufficient to increase the

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Cf. the fuller discussion of this point in *World Production and Prices, 1935/36.*

rate at which world production increased in the first months of 1936.

Monthly Indices of Industrial Production.

(Base: 1929 = 100.)

Country	1935 April	1935 Dec.	1936 April	Percentage increase April 1935 to April 1936
U.S.S.R.	265.6	352.2	352.0[a]	+ 34
Hungary	106.1[b]	120.5[c]	127.0[b]	+ 20
Czechoslovakia	66.1	80.4	78.0	+ 18
Greece	119.9[d]	129.2	141.5[d]	+ 18
U.S.A.	72.3	87.4	84.0	+ 16
Austria	73.8	89.4	85.3	+ 16
Estonia	93.0	96.9	108.3	+ 16
Canada	76.7	85.4	85.7	+ 12
Belgium	71.8	78.8	79.1	+ 10
France	66.7	68.8	73.1	+ 10
Germany	93.4	96.2	102.6	+ 10
United Kingdom	105.3[b]	112.5[c]	114.7[b]	+ 9
Chile	118.5	120.8	126.8	+ 7
Netherlands	69.1	69.8	74.1	+ 7
Poland	66.6	68.6	71.5	+ 7
Denmark	120.0	124.0	127.0	+ 6
Finland	123.3	127.5	129.2	+ 5
Norway	103.4	109.6	108.4	+ 5
Japan	143.0	152.8	148.0	+ 3
Spain	87.4[d]	87.4	76.9[d]	− 12

[a] February.
[b] First quarter.
[c] Fourth quarter.
[d] March.

Uneven National Recoveries.

The last table of the preceding section, showing the available national indices of industrial production for recent months, gives some indication of the uneven rate at which production has been increasing in various countries. It is necessary, however, to place these most recent developments in proper perspective by relating them to the degree of recovery that had been attained before 1935. There has been an upward movement in world production since about the middle of 1932, and that date was the turning-point of the depression in most countries. As the following table shows, the progress of recovery has not been uniform. First one group of countries and then another has taken the lead. These differences in national development have been and are significant, since the achievement and maintenance of international economic equilibrium is a condition of continuing prosperity. The table is based upon quarterly averages of the monthly indices of several typical countries since the middle of 1932.

Quarterly Indices of Industrial Production, 1932-1936.

(Base: 1929 = 100.)

Country		1932		1933				1934				1935				1936
		III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
U.S.S.R.		.	.	.	.	.	.	223	227	219	273	267	268	271	341	348[a]
Japan		99	108	105	110	115	123	120	127	128	140	135	141	141	150	142
Greece		.	.	106	109	110	114	114	131	126	130	120	152	149	139	136
Sweden[b]	A	83	88	94	91	95	105	110	117	117	119	124	125[a]	...	...	...
Roumania		98	100	82	100	117	112	114	117	135	129	116	112	132	...	...
Finland	A	85	88	91	98	99	96	112	119	120	114	123	120	122	129	133
Hungary	A	72	79	76	81	86	92	93	98	94	105	106	103	114	121	127
Denmark		.	.	.	.	.	.	103	113	116	116	118	120	123	123	123[c]
Chile	A	90	99	99	95	94	95	97	101	106	116	114	121	119	127	119
United Kingdom[d]		78	85	85	86	87	94	98	97	96	104	105	104	103	113	115
Estonia		.	.	.	.	.	.	.	.	.	.	99	102	114	110	114
Norway		—	.	92	97	86	100	97	100	100	104	103	107	99	112	112
Germany	A	57	59	61	63	66	70	78	82	83	88	89	95	97	100	98
Italy		65	69	69	76	77	73	71	80	83	85	90	98	86[a]	.	.
Spain	A	86	91	83	83	84	88	85	86	85	85	86	84	88	89	88[a]
Austria	A	59	62	59	62	66	74	69	70	71	77	74	75	82	87	86
Canada	A	57	55	49	57	69	67	68	75	77	74	76	79	83	87	83
Belgium		54[e]	68	67	68	64	68	68	65	65	68	66	72	71	80	81
U.S.A.	A	52	55	53	66	77	62	68	71	62	65	75	72	74	83	80
Czechoslovakia		61	64	58	59	60	64	62	70	68	66	65	67	69	78	75
France		67	69	74	78	80	77	75	72	69	67	67	66	67	68	71
Netherlands		55	66	72	67	70	67	75	74	64	65	68	69	62	66	69
Poland	A	54	54	48	55	58	60	61	64	62	65	65	66	67	68	68
World, excluding U.S.S.R.[f]		60	64	63	71	77	72	76	79	74	76	82	81	82	89	88
World, including U.S.S.R.[f]		66	70	69	77	84	79	83	86	81	86	91	91	92	103	102[a]

A = Adjusted for seasonal variations.

[a] Average of two months.

[b] The level of the monthly index has been adjusted in accordance with that of the official and more comprehensive annual index.

[c] Excluding March, when production fell heavily because of a comprehensive lock-out.

[d] Board of Trade Index.

[e] Coal dispute in July and August.

[f] Excluding building and electricity.

Comparisons between the indices used in this table are difficult so far as movements from one quarter to another are concerned. Some are adjusted for seasonal variation while others are not, so that the decline of activity in the winter months is very marked in the latter cases. Nevertheless, the divergent trends of the national indices are so clearly marked that broad comparisons are possible over longer periods. In the first place, it is clear that the general movement is upward except in the countries of the gold *bloc*, which are grouped at the bottom of the table, and in Spain, where the currency has for the last year or two been pegged on the French franc.

The index which stands highest in relation to 1929 is that for the Union of Soviet Socialist Republics. Between 1929 and 1935, engineering output in the Union of Soviet Socialist Republics has increased by almost 500%, that of basic chemicals by over 400%, of rubber by almost 400%, of electricity by more than 300% and of dyestuffs by almost 300%. Ferro-metallurgical production increased more than 200% and the output of non-ferrous metals by about 200%. These are very great increases in a short time and point to a concentration of effort upon the heavy equipment industries in the first phase of industrialisation. *World Production and Prices, 1935/36,* from which these figures are taken, quotes examples of rapid, though less dramatic, progress in other industries such as timber, petroleum, building materials and cement.

The consumption industries, though increasing, have not shown the same rate of progress. Between 1932 and 1935, the capital goods industries increased their output by 70%, while that of the consumption goods industries rose by 42%. The rate of increase in the latter, however, is gradually catching up to that of the former as more emphasis is laid upon the supply of goods for current consumption. In the first months of 1936, production again increased, at an even more rapid rate than before. For the first quarter of 1936 compared with the first quarter of 1935, the output of the heavy industries (mainly producers' goods) increased by 40%, that of the light industries (mainly consumption goods) by almost 30%, and that of the food industries by 32%.

Japanese industrial expansion had also been very rapid up till 1935, but in that year the rate of increase slowed down considerably and the seasonal drop in the first quarter of 1936 was heavier than the similar fall in the preceding year. This slowing-down appears to be mainly the result of financial difficulties in the latter part of 1934. The closing of export markets, particularly for cotton piece goods, also played a part. The bulk of the increase in Japanese production has been in capital goods and has been largely dependent on Government expenditure financed by borrowing.

It is significant that the group of countries which stand in the table after the Union of Soviet Socialist Republics and Japan (in order of the increase of production since 1929) are agricultural countries in which industrial development is proceeding rapidly. Only Sweden and the United Kingdom among the industrial countries have registered increases of industrial production which are comparable with those of the agricultural group.

The rapid progress of industrialisation in the agricultural countries may be illustrated by the following table, which groups the indices of seven countries — Chile, Denmark, Estonia, Finland, Greece, Hungary and Roumania — for which monthly figures are available:

Composite Indices of Industrial Activity in Seven chiefly Agricultural Countries.

(Base: 1929 = 100.)

Index	1932	1933	1934	1935	1936 1st quarter
General index	86	97	112	121	132
Textile industries . . .	127	138	154	160	155
All other industries . .	81	92	107	115	129

Many other illustrations might be given of this tendency towards the industrialisation of agricultural countries, in Europe and overseas. Thus the imports of machinery into Yugoslavia in the first half of 1936 increased by 50% as compared with the corresponding period of the previous year. Total imports to China in 1935 fell by approximately 10%, but imports of machinery and tools increased by 10%. Australian imports of machinery in 1934/35 were approximately 50% greater than in the preceding year, and Argentine imports of machinery increased in the same proportion.

Among the industrial countries, there is a clear division between those whose recovery has been facilitated by freedom from deflationary pressure and those where contraction continued throughout 1935. By the end of 1934, industrial activity in France, after recovering in 1932/33, had fallen back to the lowest levels of the depression; the index remained about that level until the last quarter of 1935, when deflationary pressure was eased and some recovery was registered. After severe contraction and deflation following the depreciation of sterling, production increased in the gold-standard countries in 1933, but was checked in 1934 after the stabilisation of the dollar at a depreciated level. The slight recovery in the gold-*bloc* countries at the end of 1935, though hampered by widespread internal distrust of the currencies, bears some resemblance to the earlier recovery in 1933. Since costs have been in some degree adjusted to the new exchange rates, it is natural to expect such a movement after a certain lag — particularly when recovery in other countries exerts a general upward influence on purchasing capacity and prices. The setback in the gold-standard countries after 1933 did not bring activity in the Netherlands and Poland down to quite such low levels. The countries which had devalued their currencies — Austria, Belgium and Czechoslovakia — registered a steady improvement of production during 1935.

The greatest increase ot production in 1935, apart from that of the Union of Soviet Socialist Republics and of certain small agricultural countries, was registered in the United

States. The first spurt of recovery in 1933 had been followed by recession, but in 1935 the index again showed a strong upward tendency. Producers' goods industries and those producing durable consumers' goods, as well as residential building activity, displayed a continued and substantial capacity of expansion. They had, however, fallen to such low levels that, despite the progress made, they were still very much below the 1929 figures. As their recovery continued in early 1936, it became evident that the gradual approach to more normal levels of production in the United States was a most powerful factor in stimulating recovery elsewhere. Greater imports of raw materials and of certain manufactures were needed, tourist traffic and shipping services showed an upward trend and the increase of American purchasing power had virtually worldwide repercussions.

This development was all the more important since the pace of recovery tended to flag somewhat during 1935 in many countries where production had been increasing fairly steadily since the middle of 1932. Not only in Japan, but in the United Kingdom also, there was some slowing-down of the rate of increase until a new impetus was imparted to recovery in the latter part of 1935. The increase of production in the United Kingdom, though steady, was not as rapid (until 1936) as in many other countries of the paper-currency group. Sweden in particular showed a more distinct advance. There is in fact a serious problem of structural reorganisation confronting British industry. It is the newer industries and those catering primarily for the domestic market, particularly those which, like iron and steel and motor-car production, are enjoying new tariff protection, that have shown the greatest recovery. On the other hand, shipbuilding, coal-mining and many of the older export industries, particularly the cotton industry, have remained relatively depressed. In 1935, shipbuilding was still only half as active as it had been in 1929. Cotton manufacture was still 4% below 1929 levels, but the other textile industries had increased and artificial silk was among the leading industries in the recovery. Iron and steel production was 14%, that of leather, boots and shoes 32%, non-ferrous metal manufactures and gas and electricity production 35%, and building and the output of building materials more than 50% above 1929 levels, while motor-car production had doubled.

In Germany and Italy, production had been stimulated in 1934 by Government expenditure largely directed to the production of capital goods; but in Italy the index fell sharply in the third quarter of 1935. Until this check occurred, recovery was most evident in building and construction activity and in certain industries such as engineering and motor-car production. The subsequent check, as in Germany, was concentrated mainly in the consumers' goods industries. In May 1935, textile production was 8% short of 1929 levels, but in July it had fallen to 50% of the 1929 figure. In Germany, little advance would seem to have been registered after the spring of 1935. The index of manufacturing activity rose from 89 in the first quarter of that year to 96 in the second quarter, remaining at that figure for the rest of the year and dropping to 95 in the first quarter of 1936. The main reason for this stagnation was the difficulty of procuring adequate supplies of raw materials. This affected the industries producing goods for current consumption. At the end of 1935, the production index for consumption goods was 9% below the average for 1929; but, in early 1936, more adequate supplies of raw materials enabled much of the lost ground to be recovered. The increased production of producers' goods provided a striking contrast with the retardation of the consumers' goods industries in 1935. At the end of that year, the production of non-ferrous metals was 22%, of copper alone 78%, of steel 12%, and of motor-cars 60% above 1929 levels, while building activity was 20% and electric-power production about 40% higher than in 1929.

In the summer of 1936, therefore, the principal factor in the increase of world production was the accelerating recovery of the capital goods industries in the United States. Reference is made in the last chapter of this Survey to another important factor, namely the introduction in many other countries of measures — particularly important in the United Kingdom — designed to maintain easy monetary conditions. But the importance of the United States in world production is so great and the leeway to be made up in that country so great also that the gathering recovery of the great producers' goods industries, especially iron and steel, remained the most powerful factor making for industrial recovery in the world as a whole.

Chapter III.

RISING PRICES AND PROFITS.

A Widespread Rise of Wholesale Prices.

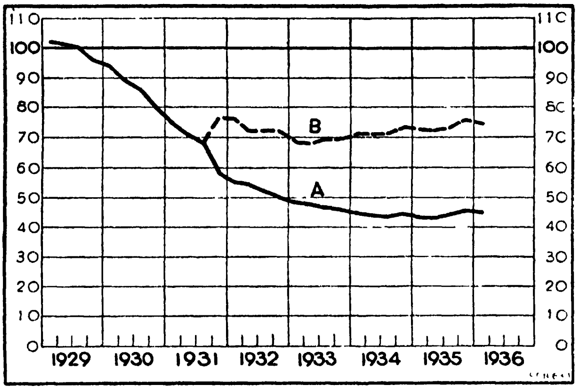
There is no index which can be regarded as showing the trend of world prices. The nearest approach to such an index is that which measures the average movement of the prices of commodities entering into international trade; expressed in terms of gold, this index fell steadily throughout the depression until the middle of 1935, since when there has been a slight rise. The level in the first quarter of 1936 was still only 45% of the 1929 average.

If the index is recalculated in terms of sterling by allowing for the depreciation of sterling in terms of gold, it will be seen that the fall has not been so great and that the recovery began earlier. When the United Kingdom abandoned the gold standard in September 1931, the dislocation of the price-levels was expressed partly as a rise of sterling prices, partly by a further sharp fall in gold prices. The adjustment once made, sterling prices followed the downward trend of gold prices (as world markets were further restricted) until the middle of 1933, when sterling prices began to rise. The further apparent fall in gold prices until mid-1935 was mainly a statistical phenomenon. Sterling prices were rising slightly, but sterling itself was depreciating, and the fall in gold prices largely reflected this depreciation, since, in fact, so large a proportion of world trade was conducted in sterling that the conversion to gold prices was heavily weighted in a downward direction. Since sterling has remained at a stable parity with the gold currencies, the rising tendency of prices is reflected in both indices.

Gold and Sterling Prices of Goods entering into International Trade.

(Base: 1929 = 100.)

A Gold prices. B Sterling prices.



In more normal times, this index might be used as a fair indication of the trend of wholesale commodity prices in general. It cannot be so used at the present time, when national economies are isolated one from another, price movements are influenced primarily by national rather than international considerations, and there is no uniformity of trend among the price movements in different countries. The prices of commodities which enter into international trade have been subject to greater pressure internationally than nationally, because the international markets have been narrowed while domestic price-levels have been sustained by a variety of bounties, subsidies, price-controls and other forms of protection. It is mainly in respect of those commodities such as tin, where international agreements to restrict production or export have been in force, that prices have tended to rise in the international market. In the latter part of 1935, an enlarged demand for raw materials reinforced this rising tendency, which spread also to commodities such as wool, which are uncontrolled. On the other hand, the development of various dumping devices has caused the prices of many manufactured articles to fall further on the world markets.

Since the international markets are confused by these developments and in any case diverge widely from national markets, it is necessary to consider national price-levels. The table which follows shows, for most of the countries where wholesale-price index-numbers are available, the national levels of wholesale prices in June 1935 and June 1936.

Wholesale-price Movements in Various Countries.

(Base: 1929 = 100.)

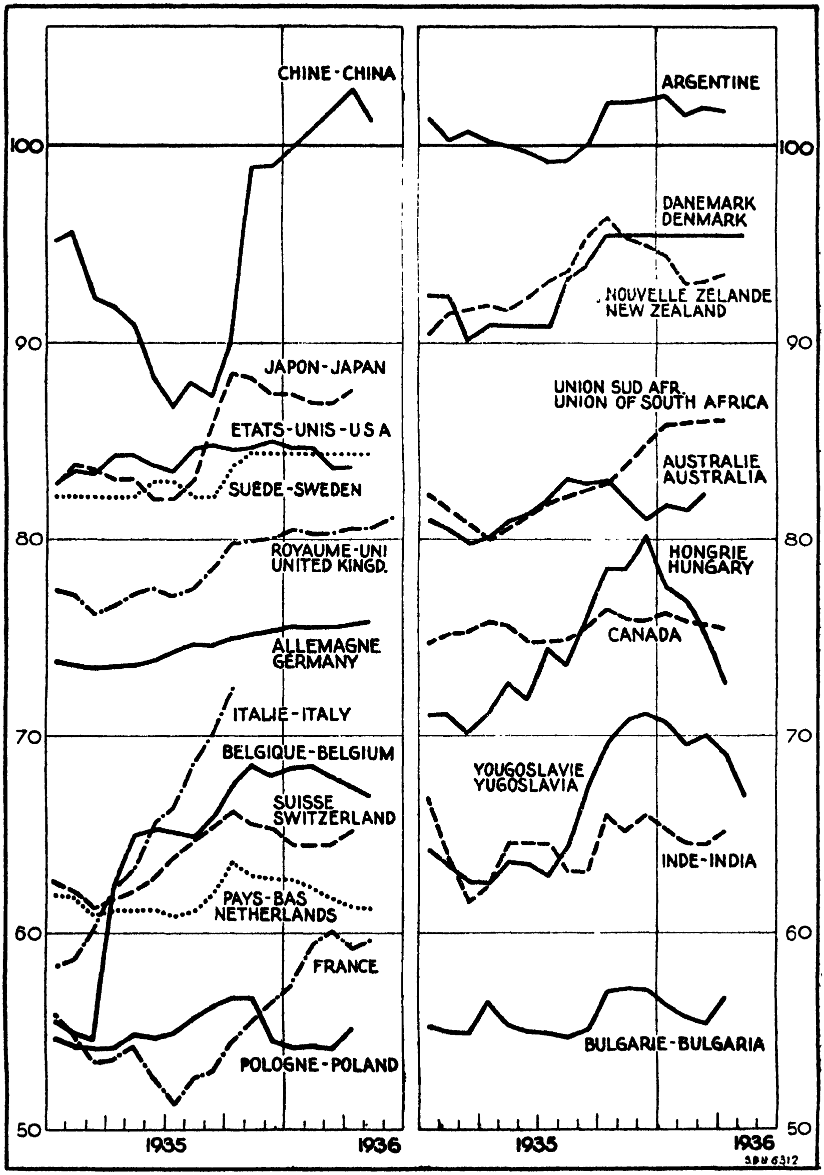
Country	June			Percentage increase or decrease, 1935-36
	1934	1935	1936	
Argentine	102.0	99.7	101.5[a]	+ 1.8
Australia	81.1	81.3	84.4[a]	+ 3.8
Austria	84.9	85.3	84.0	– 1.5
Belgium	55.5	65.2	67.0	+ 2.8
Bulgaria	54.9	55.0	56.7[a]	+ 3.1
Canada	75.3	74.8	75.1[a]	+ 0.4
China	91.6	88.1	101.5	+ 15.2
Czechoslovakia	76.5	79.1	76.5[a]	– 3.3
Denmark	87.9	90.9	94.7	+ 4.2
Egypt	72.4	81.0	72.4[a]	– 10.6
Estonia	72.6	70.1	75.2[a]	+ 7.3
Finland	90.8	91.8	91.8[a]	± 0
France	60.4	52.6	60.3	+ 14.6
Germany	70.8	73.8	75.7[a]	+ 2.6
Greece	106.9	108.6	111.3[a]	+ 2.5
Hungary	66.9	71.9	71.1[a]	– 1.1
India	63.8	64.5	63.8[a]	– 1.1
Italy	57.2	65.5	...	...
Japan	79.4	82.0	87.5[a]	+ 6.7
Latvia	68.4	70.9	70.9[b]	± 0
Netherlands	.	61.1	61.8	+ 1.1
New Zealand	89.9	92.3	93.5[a]	+ 1.3
Norway	82.6	84.6	88.6	+ 4.7
Peru	102.2	103.1	102.9	– 0.2
Poland	57.9	54.6	55.8[a]	+ 2.2
Roumania	58.0	66.0	...	...
Spain	97.7	100.1	101.1[b]	+ 1.0
Sweden	81.4	82.9	84.3	+ 1.7
Switzerland	63.0	62.7	65.1[a]	– 3.8
United Kingdom	77.0	77.5	81.1	+ 4.6
U.S.A.	78.3	83.7	82.5[a]	– 1.4
Union of South Africa	89.7[b]	80.0[b]	86.0[b]	+ 7.5
Yugoslavia	65.2	63.5	65.0	+ 2.4

[a] May. [b] April.

This table may be supplemented by the diagram showing monthly wholesale-price movements during 1935 and the first half of 1936. All the curves on this diagram have the same base-line; the indices are all based upon 1929. The divergent levels at which the indices stand indicate how widely apart national price-levels have flown since 1929. By adding other countries where the fall in prices has been greater (as, *e.g.*, the Netherlands Indies, whose index-number stood at 43.2 in March 1936), or where inflation has increased prices (as, *e.g.*, Chile, whose index was 186.9 in March 1936), a much greater spread could have been shown. For the purposes of international comparison, the index-numbers here recorded should be corrected for exchange depreciation.

Wholesale-price Movements in Various Countries, January 1935—June 1936.

(Base: 1929 = 100.)



The most important fact revealed by this diagram, however, is the great variety of movement in this period. In a few countries, notably Sweden, the price-level has been very stable; but there are many — *e.g.*, Belgium and China — where currency adjustments to new parities have caused wide price changes. Special factors accounted for the rather sharp movements shown in other cases. The sudden rises in Hungary and Yugoslavia (and to a less extent in Bulgaria) were largely caused by Italian

The Sterling Price of Various Commodities.

(Base: 1929 = 100.)

Commodity	1935		1936	Percentage increase or decrease, June 1935-June 1936
	June	December	June	
Hemp	40.6	68.2	62.4	+ 53.7
Cocoa[a]	90.5	93.9	120.2	+ 32.9
Silk	38.7	49.3	49.3	+ 27.4
Copper	37.3	45.7	47.2	+ 26.5
Rubber	58.5	63.4	73.1	+ 25.0
Linseed-oil	64.2	80.9	78.1	+ 21.7
Wheat	55.5	58.8	67.2	+ 21.1
Wool	44.1	50.7	52.3	+ 18.6
Maize	45.3	46.6	53.4	+ 17.9
Pig-iron	91.7	94.4	106.4	+ 16.0
Butter	56.7	71.1	65.0	+ 14.6
Flour	65.2	75.7	73.0	+ 12.0
Mutton	64.3	78.6	71.4	+ 11.0
Lead	64.1	71.2	69.2	+ 7.9
Hides	90.3	86.8	97.2	+ 7.6
Sugar	81.9	79.7	87.4	+ 6.7
Iron bars	95.7	95.7	100.6	+ 5.1
Tea	72.7	79.4	76.2	+ 4.8
Cotton	67.1	62.8	69.6	+ 3.7
Steel rails	97.1	97.1	100.0	+ 3.0
Petroleum	79.8	79.8	79.8	+ 0
Timber	81.3	81.3	81.3	± 0
Coal	91.2	91.2	91.2	± 0
Rice	60.5	67.5	59.6	− 1.5
Gold	166.3	166.1	163.3	− 1.8
Beef	75.9	77.6	74.1	− 2.4
Cement	87.0	84.8	84.8	− 2.5
Spelter	56.7	60.5	55.2	− 2.6
Bacon	87.6	74.7	81.6	− 6.8
Barley	72.3	84.0	63.9	− 11.6
Jute	64.3	65.3	55.5	− 13.7
Oats	85.7	66.7	71.4	− 16.7
Tin	113.6	107.6	87.5	− 23.0
Flax	107.7	102.4	70.0	− 35.0
Silver	132.3	104.5	80.8	− 38.9

[a] Base, 1931 = 100.

purchases in Hungary and by German purchases in the other countries. Raw silk is an important item in the Japanese index, and a partial failure of the cocoon harvest caused a sharp rise in silk prices. The steep rise in Italy until October 1935, when the publication of statistics was discontinued, needs no explanation. The abrupt reversal of deflation in France is clearly marked by the rise of the price-level since July 1935.

It seems clear that the level of wholesale prices is moving upwards in most countries. Between June 1935 and June 1936, there were increases in twenty-two, and decreases only in seven countries of the thirty-three for which index-numbers of wholesale prices are available.

The table showing the price movements of various important commodities seems to indicate that the most important cause of the upward tendency is to be found in higher raw-material prices, particularly towards the end of 1935. Each commodity has its own special circumstances — short crops, increased demands, the success or failure of restriction schemes; but, generally speaking, food prices either fell, or rose less than those of raw materials, those of manufactured goods were relatively stable, while raw materials rose.[1]

The Restoration of Equilibrium.

Previous editions of this *Survey* have repeatedly stressed the fact that, as prices fell in the depression years, disequilibria were created between various price-groups. The fall was not evenly distributed over these groups and the indices showing average movements conceal many disequilibria. For example, wholesale prices in general fell faster and farther than retail prices, prices of investment goods fell more than those of consumption goods, and agricultural prices more than the prices of manufactured goods. The *Survey* for 1934-35 noted a trend towards the reduction of many existing disequilibria,[2] and this trend has, on the whole, continued in the period since July 1935. The pages that follow summarise the information available since that date.

In comparing wholesale and retail prices, it is necessary to bear in mind the method by which the indices are constructed and their relative importance as indicating price movements in various countries. In general, wholesale-price indices give greater weight to a comparatively few commodities, the prices of which are determined by wholesale bargaining and are therefore more sensitive than the average. As will be shown later, there are important differences of movement even within the average level of wholesale prices. Important commodities, such as iron and steel and petrol, which are subject to cartel control are less liable to price fluctuations than many foodstuffs and raw materials. This had led to divergent movements and disequilibria as between the prices of agricultural and industrial, investment and consumption goods, and as between the prices of raw materials and manufactured goods. Broadly speaking, however, wholesale-price indices are less affected by rigidities of this character than retail prices. Not only is a larger weight often given in the retail indices to such items as rent, and fixed charges such as gas and electricity, but it is easier to control the prices of many manufactured commodities at the retail stage. The system of fixed retail prices for proprietary brands which have built up a market by advertisement is an example. The inertia of retail trade is, in any case, greater and stocks are not always adjusted quickly to changes in replacement costs. Where contracts extend over long periods — as, *e.g.*, in the case of rents — the lag is greater.

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[1] For an analysis of the factors affecting the production and prices of these commodities, see League of Nations *World Production and Prices, 1935-36*, Geneva, 1936.

[2] *World Economic Survey, 1934-35*, pages 50-65.

Moreover, there tends to be a greater degree of Government control over important elements that enter directly into the cost of living than is usually exercised in the wholesale markets. Rents are controlled in many countries, and in some there has recently been an extension of such control over food prices. A notable case is provided by recent German experience. The cost-of-living index is rising slowly in Germany; but the small extent of the rise (1 ½ %) in 1935 must be considered in the light of recurrent shortages of important foodstuffs, such as meat (especially pork), fats, butter and eggs. There is extensive price control in Germany, but adequate supplies of the controlled commodities were not always forthcoming at the legal fixed price. At certain times during 1935, butter was so scarce that an unofficial and widespread system of rationing was adopted. Thus, demand was forced to shift to more expensive uncontrolled commodities. The extent to which uncontrolled prices rose was much greater than the rise in controlled prices, so that the official index under-estimates the rise in the cost of living.[1]

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[1] *Wirtschaft und Statistik*, No. 1, 1936, page 7, makes the following comparison between the percentage increases in controlled and uncontrolled meat prices in December 1935 as compared with December 1934:

Controlled	%	Uncontrolled	%
Stewing-beef	8.2	Veal, prime cuts. . . .	28.1
Pork loins	3.3	Mutton	19.7
Bacon	4.5	Cooked ham	18.0
Liver sausage	6.1		

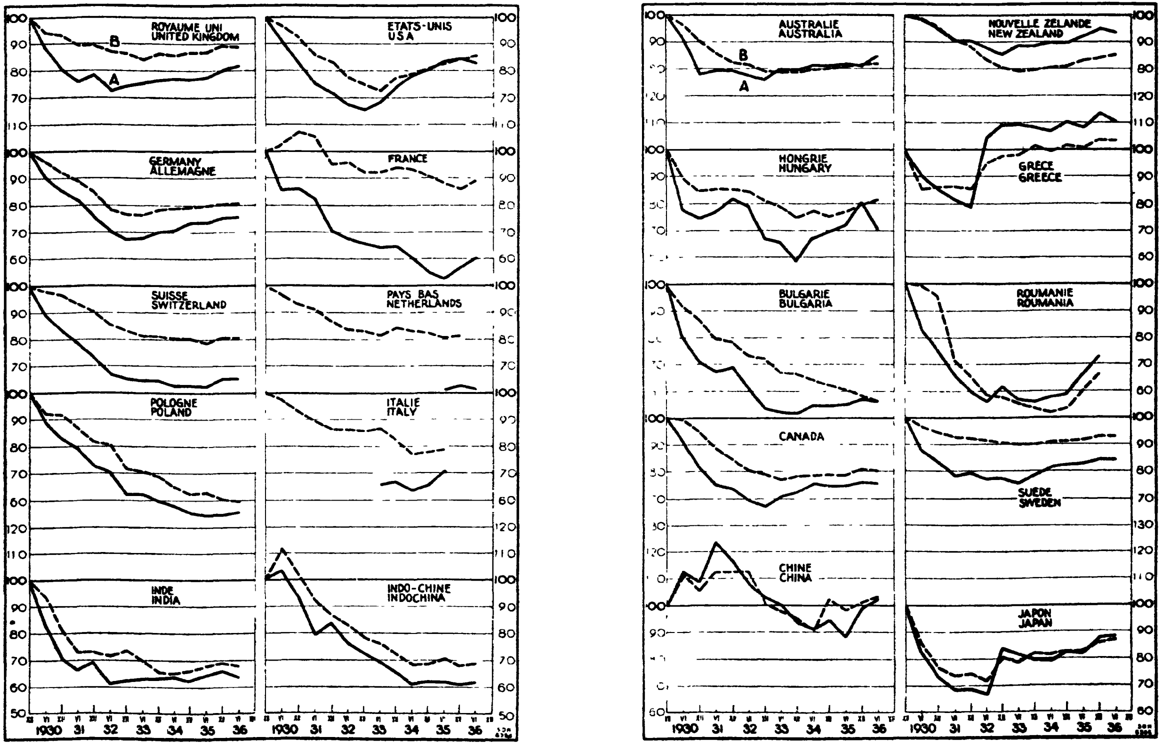
In some agricultural-exporting countries, neither the wholesale nor the retail price indices are as useful measurements of economic changes as those which measure export prices. In many respects, the retail prices, which give greater weight to the foodstuffs that are staple exports, reflect the country's situation more adequately than the wholesale prices, which tend to be dominated either by local manufactured products or by imported articles whose local prices have risen during the depression owing to exchange depreciation and higher tariffs. Thus, in the diagrams that follow, it will be noticed that retail prices have fallen more than wholesale in the Argentine, New Zealand, Greece, Roumania, and also, though to a smaller extent, in Australia. The composition of the indices must, however, be studied in each case, before the real meaning of these movements of wholesale and retail prices can be fully understood.

Wherever wholesale prices have risen in recent years, which means in practically every country except those of the gold *bloc*, the discrepancy between wholesale and retail prices has been reduced. In France, Switzerland, the Netherlands, Poland, and also in the French and Dutch colonies, the discrepancy increased until, in the middle of 1935, wholesale prices began to rise in France and Switzerland. As the diagrams opposite show, the divergence between retail and wholesale prices in other countries was further reduced in 1935 and the first half of 1936; but the extent of reduction was in many cases less than in 1934. In Belgium, Danzig and China, devaluation tended to cause a greater rise of wholesale than of retail prices and thus to reduce the discrepancy in a marked degree. The same effect was produced by the sharp rise in Italian wholesale prices up to September 1935. The virtual devaluation of the currencies in some Central and Eastern European countries, assisted by a rise in wholesale prices as a result of advantageous export sales to Germany (in the case of Hungary, to Italy), brought the wholesale closer to the retail index at the end of 1935. The marked rise of wholesale prices in the United States in 1933 brought them into the same relation with retail prices as they had had in 1929, and this relationship has been maintained. Other countries where the indices have come together again are Australia, Bulgaria and Japan. The divergence remained substantial in most other countries and, indeed, widened somewhat in the first part of 1936 in the United Kingdom, Germany, Belgium, Czechoslovakia and Yugoslavia, as well as in the countries of the gold *bloc*. Two causes appear to have been at work. The first was a fairly general tendency for wholesale prices to fall somewhat from the peak reached at the end of 1935. The second

Indices of Wholesale Prices and Costs of Living in Various Countries, 1930-1936.

(Base: 1929 = 100.)

A Wholesale prices. B Cost of living.



was a rising tendency in the cost of living as the higher wholesale prices in 1935 were reflected after the usual time lag. The effects of agricultural protection in the industrial countries were also beginning to be more marked.

As regards the correction of disequilibria between various groups of wholesale prices, it is advisable to begin by considering the movements of agricultural as compared with industrial or manufactured goods prices. The sharp fall of agricultural prices in the early years of the depression, accentuated as it was after the abandonment of the gold standard from the latter part of 1931 onwards, was a major cause of international, and in many countries national, economic dislocation. The dislocation was greatest in the world markets and in those countries whose economies depended most upon the sale of export surpluses of agricultural products to the world markets. The hasty erection of protective barriers designed to maintain domestic price-levels in many agricultural-importing countries, and the successive collapses of many important valorisation schemes, such as those for wheat and coffee, demoralised the markets for many staple products. The subsequent reconstruction of these markets has greatly altered the pattern of international production and trade in agricultural commodities.

The first point to be noted is the restoration of national price equilibrium in many countries as a result of protective measures, including agricultural subsidies, fixed prices, import quotas, and planned production. In some extreme cases, these measures have aimed at agricultural self-sufficiency. Their total result has been a great restriction of international trade, particularly in foodstuffs and to some extent in agricultural raw materials. The new national equilibria thus established are in many cases maintained at levels so high in relation to the world markets that imports must be strictly controlled, and such countries are strictly non-competitive areas. Thus, the prices of such important products as sugar, butter, wheat and many kinds of meat remain very much higher in such countries as Switzerland and Germany than in the agricultural-exporting countries or in those which still avail themselves of large supplies from the exporting areas. The arrangement by which certain industrial countries buy large quantities of agricultural produce from preferred suppliers has done something to mitigate these price inequalities. Thus, United Kingdom imports from the Dominions, German purchases from Central and Southern European and certain South American countries, and the agreement by which Italy has bought Hungarian wheat at prices above the world market have tended to maintain or raise agricultural prices both in export and in domestic markets.

There has also been a certain measure of success in reconstructing international production or export restriction schemes as, *e.g.*, in wheat and rubber, but the more successful of these international schemes have been those dealing with mineral raw materials, such as tin, the production of which is concentrated in relatively few hands. The International Rubber Agreement encountered difficulties during 1935 owing to increasing native production in the Netherlands Indies, but these appeared to have been overcome by the middle of 1936. The Wheat Agreement encountered somewhat similar difficulties as a result of Argentine exports beyond the allotted quota; but a succession of poor crops in North America, aided by restrictions on production, lowered stocks and caused a substantial rise in prices. Despite this improvement, the wheat market remained somewhat precariously dependent on the effects of bad weather. Acreage is still very large and markets have shrunk.

The considerable improvement in agricultural prices in the United States in 1933 and 1934 was due mainly to acreage restriction and to poor harvests. In 1935, the improvement in prices was maintained, but not greatly increased. Nevertheless, farmers' income increased more than the small rise in prices might suggest, because restrictions on production were less and demand improved.[1]

After allowing for these and other special factors affecting agricultural prices, the fact remains that their substantial improvement in many countries during 1935 and early 1936, and therefore, also, the closer approach to workable equilibrium with the prices of manufactured goods, was mainly due to increased demand. This in turn reflected a restocking and greater consumption of raw materials rather than foodstuffs; but increased employment and higher wages also caused some expansion in the demand for foodstuffs. The indices that are available in some countries to measure the relative movements of agricultural and other prices are summarised in the following table. It will be seen that the rise in agricultural prices was more than the average [2] in most of these countries. The Italian case is exceptional, since all prices rose abruptly under the pressure of war necessities. As in Germany, protection has brought agricultural prices in Italy to a higher level than those of other classes of goods. In Canada, Chile, the Argentine and the United States, agricultural prices remain at lower levels — but are rising faster — than industrial prices. In Poland, they are much lower than industrial prices and were still falling in 1935, though less rapidly than industrial prices. In Roumania, on the other hand, industrial prices rose more sharply in 1935 than those of agricultural commodities, and this was also true, though in less marked degree, of the United Kingdom. While the trend of agricultural prices is in general upward, both absolutely and relatively to industrial prices, the variations of movement in the different countries indicate a diversity of forces at work. If statistics were available for a greater number of countries, the variations would probably be more pronounced. Thus, agricultural prices rose sharply in France in the first half of 1935, when quotas were reduced, while deflationary measures affected mainly non-agricultural commodities and services. The great importance of butter exports from New Zealand kept agricultural prices lower in that country than in Australia, where wool and wheat were relatively more important. In the great agricultural countries of the Far East — India, China, the Netherlands Indies, Indo-China, Siam, Japan — prices remained very low. The influence of other special factors, such as exchange premiums, must be taken into account also, especially in European countries. The redressment of agricultural prices that has been taking place reflects only to a limited extent and in certain areas the restoration of international trade. Nevertheless, in many countries the situation of the farming community has definitely improved.

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[1] Farm income in the United States, which was estimated at $11,941 million in 1929, fell to $6,128 million in 1933, and has since risen to $6,771 million in 1934 and $7,630 million in 1935.

[2] In Poland, the fall was less than the average.

Indices of Agricultural and Non-Agricultural Prices, 1932-1936.

(Base: 1929 = 100.)

Country	Index	1932		1933		1934		1935		1936
		VI	XII	VI	XII	VI	XII	VI	XII	VI
Argentine . . .	Agric. products .	57	51	57	62	67	70	66	77	...
	Wholesale prices	93	89	89	97	102	102	100	102	102[b]
Canada	Agric. products .	47	42	52	53	59	61	61	65	64[b]
	Fertilisers . . .	78	78	79	82	81	82	82	82	80[b]
	Consumers'goods other than foods	85	85	82	85	85	84	83	83	83[b]
Chile	National agric. products . . .	93	126	128	112	136	131	143	149	150[a]
	National ind. products . . .	111	151	158	149	158	157	167	170	185[a]
	General wholesale prices . .	118	176	186	167	183	178	177	182	187[b]
Germany . . .	Agric. products .	71	65	65	72	72	77	78	81	81
	Wholesale prices	70	67	68	70	71	74	74	75	76
Italy	National agric. products . . .	68	63	53	57	58	62	71	...	...
	Wholesale prices	63	62	59	57	57	58	65	...	...
Poland	Agric. products .	70	53	60	53	50	48	46	47	50
	Goods bought by farmers . . .	82	76	72	71	71	67	66	64	63
Roumania . . .	Agric. products[c]	...	...	67	55	66	60	62	68	...
	Wholesale prices	56	62	57	56	58	59	66	73	...
United Kingdom	Agric. products .	77	72	69	76	76	78	77	79	81
	Wholesale prices	73	74	76	77	77	77	78	80	81
U.S.A..	Prices received by farmers . .	40	43	49	53	59	69	71	75	72[d]
	Prices paid by farmers . . .	71	67	67	76	79	82	83	80	79[a]

[a] March. [b] May. [c] Base: fourth quarter, 1929. [d] April.

Export and import prices, which are so important in the relations of agricultural with industrial countries, have tended in recent years to move more in favour of the agricultural countries. The diagrams on pages 88 and 89, which plot these indices for the years 1927-1935, show, however, that, despite this improvement, the terms of trade in 1935, as compared with 1927, were still in favour of the industrial areas. Only in British Malaya, Finland and Norway, among the non-industrial countries, were export prices higher relatively to import prices in 1935 than in 1927. The greatest rises of export prices in 1935 were recorded in Turkey, Bulgaria and Yugoslavia, in all of which German purchases were important. German purchases of cotton were largely responsible also for the rise in Peruvian export prices. There was, however, a fairly general tendency for agricultural to rise more than industrial prices in 1935, and this was reflected in an improvement in the terms of trade of the agricultural exporting areas.

The fundamental reason for the rise in agricultural prices was clearly an improved demand for, and higher prices of, raw materials. Not only agricultural but other raw materials were greatly in demand, particularly towards the close of the year 1935. The next table shows that in every country for which statistics are available, except the United States, the prices of raw materials rose more in 1935 than did those of manufactured goods. In the United States, similar price movements in 1933 and 1934 had brought the indices fairly close together again.

Price Movements of Raw Materials and Manufactured Goods in Various Countries, 1932-1936.

(Base: 1929 = 100.)

A. Raw materials. B. Manufactured goods.

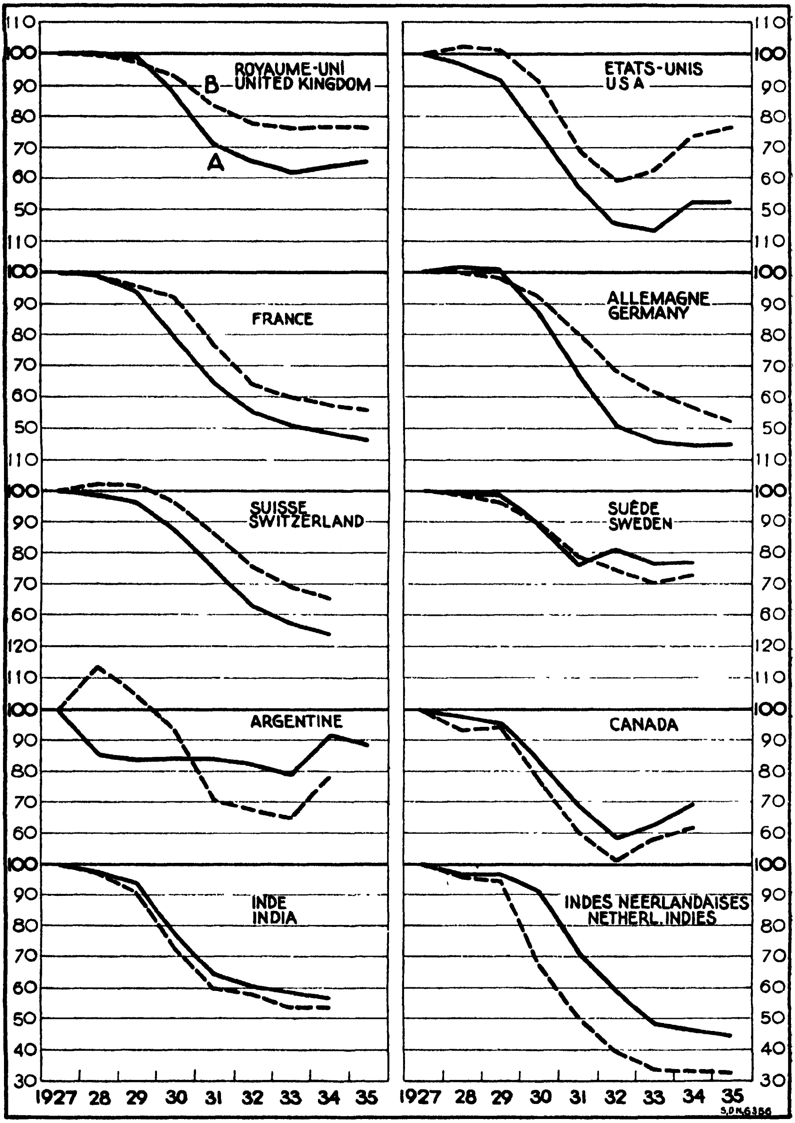
Country	Index	1932		1933		1934		1935		1936
		VI	XII	VI	XII	VI	XII	VI	XII	VI
Belgium [a]	A	48	46	43	44	43	42	53	62	63
	B	69	67	65	65	62	59	64	69	69
Canada	A	55	52	59	60	66	66	67	69	68[b]
	B	75	73	75	77	78	78	78	78	77[b]
Germany	A	66	66	68	68	69	70	69	71	71
	B	75	72	71	72	73	75	76	76	77
Italy	A	52	53	55	52	50	51	61	...	...
	B	69	70	64	64	61	61	67	...	...
Poland	A	62	63	58	62	59	56	55	55	56
	B	74	69	64	63	63	61	60	59	58
Sweden	A	81	81	79	79	82	84	84	86	84
	B	76	77	75	80	82	82	81	82	83
United Kingdom [c]	A	63	71	81	89	88	84	88	94	96
	B	91	93	94	94	95	95	95	96	98
U.S.A.	A	55	53	58	63	69	75	78	80	79[d]
	B	73	71	72	78	81	83	85	86	85[d]

[a] Figures for February and October instead of June and December. [b] May 1936.
[c] Base: 1930 = 100. [d] April 1936.

Import and Export Prices in Various Countries, 1927-1935.

(Base: 1927 = 100.)

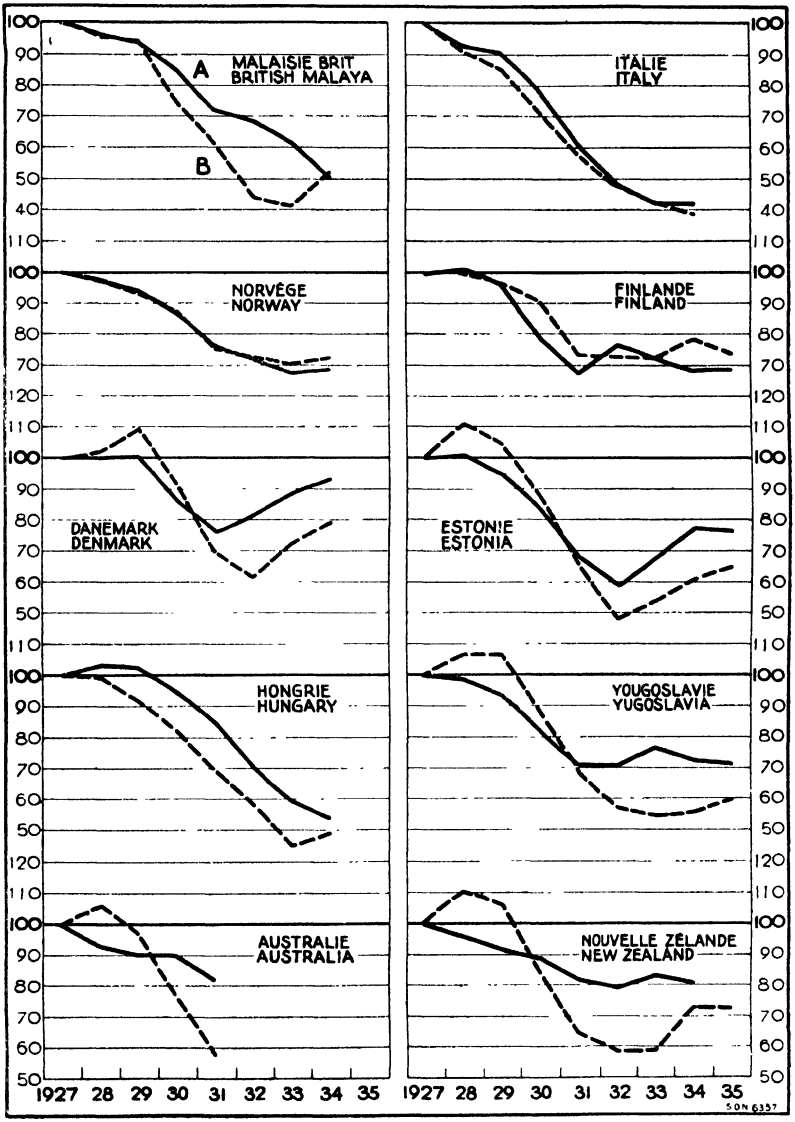
A Import prices. B Export prices.



Import and Export Prices in Various Countries, 1927-1935.

(Base: 1927 = 100.)

A Import prices. B Export prices.



Perhaps the most interesting feature of this table is the almost stationary level of manufactured goods prices in all the countries except Poland[1] and Sweden, despite sharp rises in the prices of raw materials from the low levels registered in June 1932. A summary table showing the percentage rise in these indices from June 1932 to June 1936 brings this point out more clearly.

The Percentage Rise in the Prices of Raw Materials and Manufactured Goods from June 1932 to June 1936.

	Raw materials	Manufactured goods
Belgium[a]	+ 32	+ 1
Canada	+ 23	+ 3
Germany.	+ 7	+ 3
Italy[b]	+ 18	− 3
Poland	− 10	− 21
Sweden	+ 4	+ 9
United Kingdom . . .	+ 54	+ 5
U.S.A.	+ 45	+ 17

[a] Increase from April 1932 to April 1936.
[b] Percentage taken from June 1932 to June 1935.

This table strongly suggests that, in the majority of countries, the expansion of production recorded in the preceding chapter was largely the result of increased utilisation of existing productive resources with a decline in overhead costs per unit of production, so that, despite higher raw-material costs, the prices of manufactured products did not rise much.

The upward trend of agricultural prices was also partly responsible for a further closing of the “ scissors ” that developed in the depression period between investment or producers’ goods on the one hand and consumers’ goods on the other. This discrepancy between producers’ and consumers’ goods is a phenomenon peculiar to recent times. In earlier depressions, before the prices of producers’ goods were subject to such highly organised cartel control, they fell more sharply than consumers’ goods. In the latest depression their prices were maintained, but production fell off. The recent rise of general prices has, however, tended to restore the balance, since the prices of producers’ goods remained relatively rigid in the upswing as they had in the downswing of the cycle. The upward movement of consumers’ goods is marked in Germany and Japan, and that of foods in Canada. The opposite tendency is clear in Poland, where deflation continued in 1935 and the first half of 1936.

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[1] In Poland, manufactured goods prices fell more than those of raw materials.

Price Movements of Investment and Consumption Goods, June 1932—June 1936.

(Base: 1929 = 100.)

Country	Index	1932		1933		1934		1935		1936
		VI	XII	VI	XII	VI	XII	VI	XII	VI
Canada .	Producers' equipment	93	93	90	92	94	95	95	95	95[a]
	Consumers' goods .	74	74	74	77	78	77	77	78	77
	Foods, beverages, tobacco	60	60	64	67	70	68	69	72	70[a]
	Other commodities .	85	85	82	85	85	84	83	83	83[a]
Germany .	Finished producers' goods	85	83	82	82	82	82	82	82	81[a]
	Finished consumers' goods	68	65	65	66	67	71	72	72	74[a]
Japan . .	Producers' goods . .	52	83	84	74	76	78	76	82	78[a]
	Consumers' goods .	70	81	77	76	82	90	89	92	95[a]
Poland . .	Industrial equipment	88	86	83	81	81	78	78	76	72
	Consumers' goods .	71	65	60	59	59	58	56	56	55

[a] May 1936.

The basic reason for the relative stability of prices in the case of investment goods lies in the control exercised by the great cartels which produce such commodities as steel. Wherever indices of cartellised and free prices are available, the effectiveness of control over the former is evident.

Movements of Free and Cartellised Prices.

(Base: 1929 = 100.)

	Austria		Germany		Poland	
	Cartellised	Free	Cartellised	Free	Cartellised	Free
Lowest point	90 (IX.31)	69 (IX.32)	78 (III.35)	46 (VII.32)	70 (I.36)	50 (VI.35)
Most recent date	94 (II.36)	77 (V.36)	79 (III.36)	64 (VI.36)	70 (VI.36)	53 (VI.36)

It is of more than passing interest to note that the tendency to establish control over the prices of important groups of commodities has been widely extended in recent years. This is perhaps most evident in regard to agricultural products, which fell so heavily in the latest depression. The most recent, and in some ways the most ambitious, attempt to protect agricultural producers from violent price fluctuations is the "guaranteed price" for dairy produce which has been authorised by the Marketing Act passed by the New Zealand Parliament in May 1936. This Act had not been put into force at the time of writing and any description of its administration and effects must be left to future *Surveys*. It represents another stage in the development towards regulated prices and planned production that has been so marked a feature of the post-war period and especially of the recovery phase of the recent depression.

INCREASING PROFITS.

With rising prices and increasing production in so many countries, it is natural to find that actual profit declarations and expectations of future profits should have greatly increased during 1935. There are few fields of economic enquiry in which statistical material is so unsatisfactory; but, as is shown below, the statistics that are available all point in the same direction. Economic activity is expanding in every country considered below, except, perhaps, in the Netherlands, where the figures for 1935 are not yet available. The improved profit statements shown for 1935, not only reflect that expansion, but are an important factor reinforcing business confidence and therefore the readiness of business-men to take further risks in undertaking new and extending old enterprises.

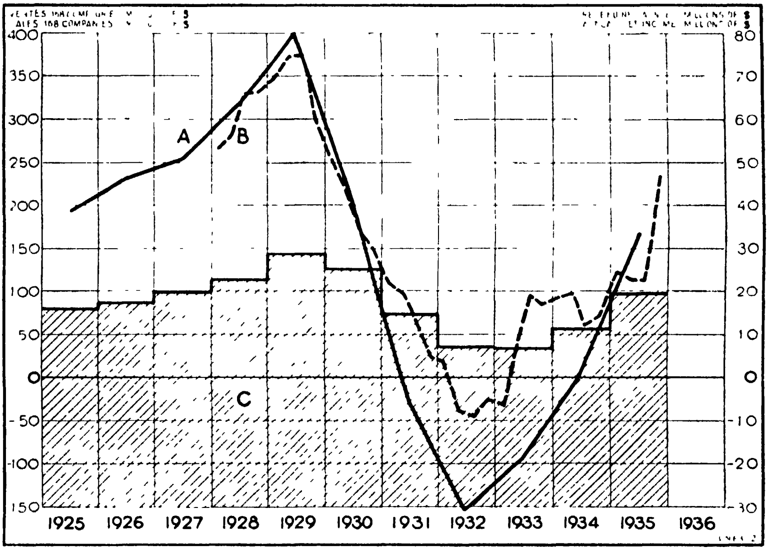
The limitations of the statistical material need constantly to be borne in mind. In most cases, the figures used relate only to a limited number of comparatively large industrial enterprises. While the dividends and earnings of such enterprises are of great importance, they do not necessarily reflect the economic situation of smaller-scale undertakings. Not only in manufacturing, retail business, transportation and other services, but also in agriculture, there is a great mass of economic activity conducted by individual or small-scale enterprises. The financial situation of such enterprises may be very imperfectly indicated by the published accounts of large-scale corporations.

Nevertheless, it seems probable that the higher agricultural prices and the gradual approach to correction of price disequilibria described in the preceding section must have gone far to place agricultural production once more on a profitable basis in most countries. In the same way, increased economic activity and greater employment must have relieved the strain on smaller-scale industrial and trading enterprises.

In the United States, for example, farm income has, since 1933, been rising more rapidly than the aggregate of other incomes.[1] Between January 1929 and January 1933, farm income fell by 59% and that of non-farm income by 41%. From these low points to January 1936, farm income had risen by 55% [2] and non-farm income by 25%. This rise in income, taken together with the fact that there has been a great deal of debt adjustment and a substantial fall in other farm expenses, suggests strongly that farming enterprises must now be more profitable than they were even a year or two ago. The greater sales and larger profits of companies producing agricultural implements reinforce this suggestion. The following diagram

Sales and Profits of Farm Implement Companies in the United States, 1925-1934 [a].

A Annual net income, 8 companies.
B Quarterly net income, 168 companies (adjusted).
C Net sales, 4 companies.



[a] *The Annalist*, May 15th, 1936, page 717.

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[1] The indices of farm and non-farm income published by the U.S. Department for Agriculture are as follows:

Indices of National Income, adjusted for Seasonal Variation.[a]
(Base 1924-1929 = 100.)

January	Farm income	Non-farm income
1929	106.5	106.0
1933	44.0	63.0
1931	61.6	71.1
1935	62.8	73.5
1936	68.1	78.6

[2] Part of this increase in farm income represents benefit payments received from the Government. In 1935, these formed from 8½-9% of the total farm income. The percentage of increase without them was, therefore, 41% instead of 55% in January 1936 compared with January 1933.

shows clearly the improved position of representative farm-implement companies and provides an illustration of the way in which greater farm income reacts upon industrial activity.

It is essential before making use of the published statistics of industrial profits to be clear as to their scope and meaning. They refer to profits in the business rather than the theoretical economic sense of the term. The profits disclosed in a company balance-sheet depend, not only upon the governing legislation and accounting practice of the country concerned, but also upon administrative decisions in the business itself. Besides the profits disclosed and carried to reserves, there may be secret reserves carried in other items of the balance-sheet.

The profits declared and allocated for payment of interest on debentures, dividends to shareholders and, in certain cases, directors' fees, combine several categories of income, as analysed theoretically. Interest on invested capital and earnings of management are theoretically distinct from the reward of enterprise; but, in practice, business profits include them all in varying proportion. It is almost impossible to differentiate between profits or losses arising from current production and those arising from the sale of assets. The problems of capital replacement, wastage or additions, depreciation and reserves may be treated by a variety of accounting methods. In order to estimate the financial situation and earning power of any particular business, it is necessary to make a detailed analysis of successive balance-sheets.

The combination into an aggregate total or an index of profits declared by individual companies, therefore, represents a compilation of what may be heterogeneous material. The nature of the businesses selected and the extent to which the sample is representative of business in general differ greatly in the various compilations that are available. Thus, it is known that the statistics compiled from the balance-sheets of a limited number of large corporations in the United States have shown much smaller losses in the depression years than the more complete calculations, including smaller enterprises, that only become available after a greater lapse of time. The sample is not fully representative.

Moreover, no great reliance can be based upon the usual statistical safeguard that individual variations are smoothed out in the aggregate or average. Thus, in periods of prosperity, accounting presentation may for some time disguise the actual profits that are being earned. Attempts to differentiate between income earned and income paid out do not always deal satisfactorily with this problem.[1] There tends to be a lag between the real situation and that disclosed by the statistics. Profit statistics are therefore a very imperfect guide to the economic situation at any given moment. This is, perhaps, most important in a period of recovery after a prolonged depression. Balance-sheets are not published in any case until a certain time has elapsed after the close of the year or period to which they refer. When they are published, the profits that have been made may be largely hidden in various items of the balance-sheet. Disclosed profits carried to reserve or made available as dividend or interest payments do not, in general, become noticeably greater until recovery is well under way. Their disclosure at this time acts as a further stimulus to the recovery, encouraging both a writing-up of share values and new investment.

For the United Kingdom, the *Economist* publishes each year calculations of the aggregate profits of about 2,000 companies. The list of companies varies somewhat from year to year; but, by comparing the same companies in each successive pair of years, a chain index is calculated which gives an indication of the general movement. The figures refer to profits declared in the course of the year and have for the most part been earned in the preceding year. Railway companies are not included; but, on the other hand, certain holding companies and financial concerns whose receipts are derived in whole or in part from dividends or security holdings are included, as well as certain companies operating enterprises outside the United Kingdom. Profits are calculated after deduction of debenture interest, so that the index fluctuates rather more than would a similar index of gross profits. The percentage of gross profits required for debenture interest was, however, only 15½% in the worst year of the depression.

The Movement of Profits in the United Kingdom, 1930-1935.

Year	Number of companies	Total profits		Chain index (Base: 1929 = 100)
		Current year's profits	Profits of same companies in preceding year	
		£ (000,000's)		
1930	1,932	197.5	198.8	99
1931	2,009	160.1	206.6	77
1932	1,998	143.3	175.0	63
1933	1,945	141.4	140.8	63
1934	1,975	168.8	144.8	74
1935	2,116	203.2	175.3	86

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[1] *Cf.* Simon KUZNETS: " Income originating in Nine Basic Industries ", *Bulletin 59* of National Bureau of Economic Research, May 1936, for a discussion of this problem.

Profits in Different Industrial Groups in the United Kingdom,[a] *1932-1935.*

Group	Number of companies	Capital £ (000,000's)				Profits £ (000's)				Ratio of profits to capital %			
		1932	1933	1934	1935	1932	1933	1934	1935	1932	1933	1934	1935
Heavy industry	12	28.0	28.0	28.3	22.0	290	442	1,086	1,827	1.0	1.6	3.8	8.3
Electric light and power .	7	32.5	33.7	35.7	36.9	2,640	2,988	3,054	3,132	8.1	8.9	8.6	8.5
Motors and aeroplanes .	11	10.5	10.5	10.5	11.8	592	1,121	1,705	1,913	5.6	10.7	16.2	16.2
Motor accessories and cycles	9	3.7	3.5	4.6	4.7	240	314	476	484	6.4	8.8	10.3	10.3
Cotton and textile finishing	10	20.3	20.3	20.3	20.3	—38	179	139	50	-0.2	0.9	0.7	0.25
Other textiles and clothing	17	57.8	57.8	57.8	57.8	2,160	3,457	3,344	3,478	3.7	6.0	5.7	6.0
Railways	4	736.0	785.9	786.0	786.0	15,034	16,618	19,519	20,749	1.9	2.1	2.5	2.6
Shipping	4	7.7	7.7	7.7	7.7	229	366	401	540	3.0	4.8	5.2	7.1
Stores.	4	16.7	16.7	16.7	16.7	743	964	752	1,045	4.5	5.8	4.5	6.3
Boots and shoes	9	8.3	8.3	8.3	8.1	651	612	641	690	7.9	7.4	7.7	8.5
Oil	4	27.0	29.2	29.2	29.2	1,884	2,179	2,428	3,030	7.0	7.5	8.3	10.4
Rubber	10	3.3	3.3	3.4	3.4	—37	61	168	147	-1.1	1.8	4.9	4.3
Tobacco	3	94.1	94.1	94.1	94.1	14,670	14,103	15,628	16,323	15.6	15.0	16.6	17.3
Breweries	10	12.8	12.9	13.0	13.4	1,492	1,568	1,896	2,103	11.6	12.2	14.6	15.7

[a] Source: *The Times Trade and Engineering Supplement*, May 1936.

A less complete calculation, published in May 1936 by *The Times Trade and Engineering Supplement*, discloses a wide variation, not only in the average rate of profit in different groups of industries, but also in the degree of recovery during recent years. The relative stability of earnings in the electric light and power group, for example, is in striking contrast with the fluctuations revealed by the heavy industry group.

The profits shown in this table represent net profits after deduction of expenses and charges, including depreciation, salaries, directors' and auditors' fees, interest on debentures and borrowed money, and allocations to "tied" as distinct from "free" reserves. The dividends paid in 1932 were greater than the earnings disclosed in that year, reserves being drawn upon in many industries. As recovery progressed, reserves were built up again; but in the more depressed industries, such as cotton and textile finishing, reserves were still being drawn upon in 1935. The allocation of declared profits is summarised in the following table:

The Percentage Appropriation of Profits, including Amounts brought forward from Previous Years, in 1934 and 1935.[a]

Group	Dividends		Reserves		Other appropriations		Carried forward	
	1934	1935	1934	1935	1934	1935	1934	1935
Heavy industry	72	54	15	22 ½	—	—	13	23 ½
Electric light and power	65	63 ½	12	14	—	—	23	22 ½
Motors and aeroplanes	36 ½	38 ½	26	17 ½	1	—	36 ½	44
Motor accessories and cycles	60	69 ½	19	22 ½	2	2	19	6
Cotton and textile finishing	50	54 ½	—	—	—	—	50	45 ½
Other textiles and clothing	80	76 ½	3	2	—	2	17	19 ½
Railways	98	98	—	—	—	—	2	2
Shipping	61	49	9	22	—	½	30	28 ½
Stores	76	76 ½	2	2	1	—	21	21 ½
Boots and shoes	59	58 ½	2	2	—	½	39	39
Oil	79	85	—	—	—	—	21	15
Rubber	39	40 ½	3	—	—	—	58	59 ½
Tobacco	82	80	—	2 ½	—	—	18	17 ½
Breweries	43	44	7	7 ½	—	½	50	48

[a] Source : *The Times Trade and Engineering Supplement*, May 1936.

The data for the United States are not as representative nor as up to date as those for the United Kingdom. The statistics which are available for the year 1935 refer almost wholly to larger-scale industrial, commercial and financial enterprises whose shares and bonds are publicly quoted. The following table summarises calculations made on this basis by the National

City Bank of New York. The last column of the table gives for comparison the industrial-profit index compiled by the Standard Statistics Company converted to a 1929 basis. This index covers only 120 purely industrial corporations and is therefore an obviously incomplete index of the changes in industrial profits in the United States as a whole.

Industrial Profits in the United States, 1929-1935.

Years	(*a*) Number of corporations considered in columns (*b*) and (*c*)	(*b*) Net profits $ (000,000's)	(*c*) Rate of return on nominal capital %	(*d*) Index of changes in the volume of profits of 120 industrial corporations
1929	1,303	3,524	13.5	100.0
1930		1,937	6.7	59.3
1931		718	2.5	25.0
1932	1,475	— 97	(Negative)	(Net loss)
1933		661	2.6	15.7
1934	2,010	1,789	3.5	26.1
1935		2,541	5.1	41.1

Other information, not quite so up to date, suggests the fact that the fall of profits shown in the preceding table was far from measuring the extent to which profits in smaller enterprises fell. Thus, a study of all manufacturing and mining enterprises in the United States yields the following results: [1]

Year	(*a*) Dividends	(*b*) Withdrawals by *entrepreneurs*	(*c*) Net business savings or losses	(*d*) Profits (Total (*a*)-(*c*))
	($ 000,000's)			
1929	2,943	354	1,321	4,618
1930	2,867	320	– 2,161	1,026
1931	2,035	264	– 3,428	– 1,129
1932	1,199	195	– 3,494	– 2,100
1933	1,086	181	– 1,276	– 9
1934	1,400	213	338	1,951

It will be seen that the losses disclosed in this table for industry as a whole during the depression years were greater than the previous table showing the decline in profits of large enterprises might indicate.

Industrial profits were rising in Japan from 1931 onwards, but no information is available beyond the first half of 1935.

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[1] S. Kuznets: " Income originating in Nine Basic Industries, 1919-1934 ". National Bureau of Economic Research, *Bulletin No. 59*, May 1936.

Profits declared in that period were for the most part earned in 1934. The profit index and the rate of return on paid-up share capital had risen beyond 1929 levels even earlier in 1934, and the first half of 1935 saw a further advance. Profits were particularly high in the armament industries (iron and steel, mechanical and electrical engineering and chemicals) and also in certain consumption-goods industries, such as rayon, dyestuffs, glass and porcelain.

The increase of industrial gross profits continued in Germany during 1935. The following table summarises the statistics that have been published by the Reichs-Kredit-Gesellschaft.[1] A wider selection of data is analysed by the *Institut für Konjunkturforschung*, from which it is estimated that the profit of 2,000 industrial concerns in 1935 was over a milliard Reichsmarks, compared with from a half to one milliard in 1934 and a loss of five milliards in 1931.[2]

Industrial Profits of Twenty-five Representative Industrial Concerns in Germany, 1933-1935.

Business years ending middle of	Heavy industry 7 companies		Engineering 9 companies		Textiles 9 companies		Total 25 companies	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	RM. (000,000's)							
1933	305	19.3	78	—2.3	24	1.2	407	18
1934	355	24.5	104	3.5	29	2.2	489	30
1935	414	23.3	140	3.6	31	2.8	585	30

The Reichs-Kredit-Gesellschaft report explains the decline in net profits shown in its sample study by the fact that, failing a rise in prices of manufactured articles, the overhead costs per unit of output begin to increase, since in many industries the optimum volume of production has been passed. Taxation also absorbs an increasing proportion of the rising gross profits. Other important factors in limiting net profit would appear to have been: the costs of adapting plant and equipment to handle different raw materials made available by home production and purchases in new markets; the expense of these materials; losses arising from occasional shortages resulting from the lack of foreign exchange with which to purchase, and the additional social burdens and costs thrown on employers.

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[1] "Germany's Economic Position at the Turn of 1935/36", Reichs-Kredit-Gesellschaft, Berlin, 1936.

[2] *Vierteljahrshefte zur Konjunkturforschung*, 10. Jahrgang, Heft 4, Teil A, Berlin, 1936.

Finally, certain statistics are available for the Netherlands and Belgium. In the former, the slow rise in net profits since 1931 appears to be mainly the result of cost reductions, but, so far, these have not been reflected in increased economic activity.

Profits of Seventy-six Industrial Enterprises in the Netherlands, 1929-1935.[a]

Florins (000,000's).

Year	Gross	Net
1929.	163	73
1930.	105	—24
1931.	71	12
1932.	60	15
1933.	50	17
1934.	52	22

[a] "Le Mouvement des Affaires aux Pays-Bas", Bureau Central de Statistique des Pays-Bas.

The Belgian statistics are more comprehensive, covering as they do a number of companies ranging from 6,000 to 7,000 in successive years and including all companies operating in Belgium and the Belgian Congo which publish reports in the *Moniteur Belge.* Since the latest figures given refer to profits declared during 1935, they do not as yet reflect the economic improvement that took place in Belgium from the second quarter of 1935 onwards.

Industrial Profits in Belgium.[a]

Year of publication	Number of companies	Excess of total profits over total loss	Percentage of paid-up capital
		Francs (000,000's)	
1929.	5,719	5,796	20.2
1930.	6,668	6,324	14.4
1931.	7,091	4,358	8.8
1932.	7,130	1,410	2.8
1933.	7,062	789	1.6
1934.	7,334	1,334	2.7
1935.	7,183	1,655	3.7

[a] *Bulletin d'Information et de Documentation,* Banque Nationale de Belgique.

The statistics of profit summarised in this section are compared with the statistics of industrial production in the countries concerned in *World Production and Prices, 1935/36.* As in all periods of economic recovery, profits have increased faster than output. Effective costs of production were reduced in the depression years; not only are wages and the costs of raw materials lower in most countries, but there has been extensive mechanical re-equipment and improvement of technical processes. In the second place, except in the countries of the gold *bloc*, interest rates have fallen considerably, and, since overhead costs are now spread over a greater volume of output, the decline in interest charges per unit of production is considerable. The upward tendency of prices has been much less marked in respect of finished manufactures than in respect of raw materials and semi-finished goods, and has therefore tended to diminish rather than increase manufacturing profits. Increased production and the lagging, if not falling, tendency in finished goods prices has been accompanied by an improvement in profits.

Chapter IV.

THE TREND OF CONSUMPTION.

Recent Changes in National Income.

National income is a conception difficult to define accurately and still more difficult to measure.[1] Estimates of national income are made in many countries; but great care must be used in interpreting such estimates and the meaning of their changes from year to year. Inferences from them based upon analogies with personal income are often misleading, and comparisons with other global monetary estimates such as national debt liabilities and tax burdens need considerable qualification and interpretation.[2] The income of an individual as commonly understood, is a definite amount of money giving him command over commodities and services. His real income, however, consists, not only of the commodities and services he buys, but of an important number of community benefits which are difficult to evaluate and apportion. National income is essentially a concept of real goods and services, the net product of the national economy during the year. Necessarily, for lack of any other common denominator, it is calculated in monetary terms; but it might perhaps be better expressed as an index number. The concept has been well defined in the following terms:

> "If all commodities produced and all personal services rendered during the year are added at their market value, and from the resulting total we subtract the value of that part of the nation's stock of goods which was expended (both as raw materials and as capital equipment) in producing this total, then the remainder constitutes the net product of the national economy during the year. It is referred to as national income produced and may be defined briefly as that part of the economy's end-product which is

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[1] *Cf.* J. M. Keynes: " The General Theory of Employment, Interest and Money " London, 1936, pages 37-40.

[2] *Cf.* " National Income, 1929-1932 ", Document No. 124, U.S. Government Printing Office, 1934, pages 5-8.

> attributable to the efforts of the individuals who comprise a nation.
>
> "In return for these efforts, the individuals receive some compensation, either in money or in kind. If such money receipts and the money equivalents of the receipts in kind are added, the resulting total constitutes national income paid out."[1]

Even this fuller definition needs to be supplemented by a study of the methods used in estimating national income in any particular case. In the modern world, payments and receipts often cross national boundaries and allowance must be made for this fact when estimating national incomes. In certain cases — as for example in many countries where debt service has been suspended in recent years — national incomes have been increased in so far as the investments have been productive of goods or services which enter into the national income without deduction of the interest and amortisation charges due. There are many technical problems of computation also — the assessment or omission of unpaid services such as those of housewives, methods of calculation and division between current income and capital provision — and these are treated differently in various estimates.

Perhaps the chief difficulty in interpreting estimates of national income in recent years, however, arises from the rapid change in the "market prices" at which goods and services have been combined to form an aggregate. It is necessary to use monetary values as a common denominator; but this involves the difficulty of a changing unit of measurement. A sharp fall in the price level may give a greatly reduced estimate of national income; but this may coincide with a greater volume of production and therefore larger real income, at least for certain groups in the community. Conversely, a sharp rise in prices may give a higher estimate of national income which in fact conceals real impoverishment. An extreme example may be found in the post-war years of monetary inflation. Unfortunately, there is no practical method of measuring "real income", though some correction may be made in the measurements of monetary income so as to allow for average price changes.

In the present chapter, an attempt will be made to survey the statistical evidence available for a number of countries concerning changes in national income during recent years. These have been years of violent monetary disturbance, and measurements of national income — never very abundant, up-to-date or accurate — have become less reliable on account of the price changes that have taken place. In the later sections of the chapter, the information available concerning particular forms of consumption is analysed in an attempt to throw more light on changes in real income during the depression and subsequent recovery. In the present section, attention is paid only to measures of monetary income in the aggregate, without considering changes in real income. The various national estimates used are compiled independently by a variety of methods and differ considerably in scientific value.

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[1] "National Income, 1929-1932" — *Cf. cit.*, page 1.

The first point to be noted is that, while the monetary value of national income fell during the depression in every country for which estimates are available, the extent of the fall differed greatly from country to country.

The Fall in National Incomes, 1929-1932.[a]

Country	Currency (000,000's)	1929	1932	Percentage fall
Hungary	Pengö	5,776	3,000	48
Roumania	Lei	200,900	103,500	47
Canada	$C	6,072	3,403	44
U.S.A.	$	78,600	48,000	40
Germany	RM.	76,098	46,500	39
Latvia	Lat	1,151	754	35
Australia[b]	£A.	645	430	34
New Zealand	£N.Z.	127	84	34
Greece	Dr.	41,000	28,000	30
Japan	Yen	11,919	9,813	21
Austria	Sch.	5,729	4,839	17
France	Fr.	245,000	206,000	16
Finland	Markka	16,547	14,274[c]	14
United Kingdom	£	4,843	4,266	12
Norway	Kr.	2,200	1,948	12
Denmark	Kr.	3,700	3,400	8
Sweden	Kr.	5,323	5,328	± 0

[a] *Sources:*
Austria — *Monatsberichte des Österreichischen Institutes für Konjunkturforschung*, Nr. 8, 1935.
Australia — *Official Year-book, 1934.*
Canada — *Canada Year-book, 1934-35.*
Denmark — *Statistiske Meddelelser*, 4 Raekke, 95 Bind, 2 Haefte.
Finland — *A. B. Nordiska Foreningsbanken Unitas*, August 1935.
France — *Revue d'Economie politique*, May-June 1935.
Germany — *Statistisches Jahrbuch des Deutschen Reiches, 1935.*
Greece — Banque d'Athènes, *Bulletin économique et financier*, September 1933.
Hungary — Matolcsy-varga: Magyarorszag nemzeti jövedelme, Economic Research Institution, Budapest, 1936.
Japan — *The Oriental Economist*, March 1935.
Latvia — *Lettlands Oekonomist, 1933.*
New Zealand — *Official Year-book, 1935.*
Norway — *Statistiske Meddelelser*, Nr. 8, 1935.
Sweden — *Vierteljahreshefte zur Statistik des Deutschen Reiches, 1934.*
United Kingdom — F. C. PRITCHARD WOOD & PARTNERS, LTD.: "A Commercia Barometer, September 1935.
U.S.A. — *Survey of Current Business, 1935.*

[b] 1928-1931.

[c] 1931.

Differing methods of compilation may account for some of the variation disclosed in this table, and no great reliance can be placed upon small variations as between particular countries. In general, however, the agricultural-exporting countries fared badly. It is no accident that brings them to the top of the list. The collapse of agricultural prices was one of the most striking features of the early depression years. Many other factors were in operation, however, and the circumstances of each country need to be studied separately. The early development of the depression has been described in previous *Surveys*. It is sufficient here to recall that the heaviest falls in national income were in those countries whose financial situation was most vulnerable. The fiercest competition and the most chaotic disorder arose in the uncontrolled international markets. In some cases, the contraction was caused primarily by the collapse of an inflated domestic credit structure when the external balance of payments became strained, in others a sharp fall in export prices was the dominant factor. Again, wherever the burden of external debt was heavy, the deflation undertaken to discharge interest payments accelerated the fall in national income. The deflationary forces that contracted national incomes had different backgrounds of economic disorganisation and national psychology. Their intensity naturally varied, but in most countries they were brought under control from about the middle of 1932.

Since this turning-point, there has been a widespread tendency for national incomes to increase. The following table is sufficient to show the upward movement in countries where deflation has ceased.

The Rise in National Incomes, 1932-1934.[a]

(000,000's.)

Country	Currency	1929	1932	1933	1934	1934 compared with 1932	
						1932	1929
						%	%
United Kingdom	£	4,843	4,266	4,364	4,635	+ 9	— 4
Norway	Kr.	2,200	1,938	1,902	1,948	+ 1	— 11
New Zealand	£N.Z.	127	84	84	99	+ 18	— 22
France	Fr.	245,000	206,000	199,000	178,000	— 14	— 27
Denmark	Kr.	3,700	3,400	3,600	3,650[b]	+ 7	— 1
Japan	Yen	11,919	9,813	11,101	...	...	...
Roumania	Lei	200,900	103,500	99,300	...	...	...
Germany	R.M.	76,098	46,500	47,500	52,420	+ 13	— 31
U.S.A.	$	78,600	48,000	44,100	49,400	+ 3	— 37

[a] See sources on preceding page.
[b] Estimation based on the figures published by the *Statistisk Aarbog, 1935*, page 187.

Among the countries for which 1934 statistics are available, it so happens that there is a considerable variety of experience. New Zealand represents the agricultural-exporting countries in which national incomes fell most and have, since 1932, risen rapidly, without, however, regaining more than about half the fall between 1929 and 1932. Other countries with roughly similar experience are Canada, the United States, Australia, South Africa and the Argentine. The United Kingdom and France represent the middle group of industrial creditor countries in which the fall of national income was much less pronounced. The recent experience of these two countries, however, affords a striking contrast. In the United Kingdom in 1934, the national income was practically back to the 1929 level; but in France, under the pressure of deflation, it was still falling in 1934 and probably even more in 1935. The continuing decline of national income in France is paralleled in Switzerland and the Netherlands and probably also in Poland.[1] In all of these countries, the retention of the existing exchange parities has involved a continuous contraction by deflation. On the other hand, gains in national income even more striking than those recorded in the United Kingdom might probably be registered by such countries as Chile, Japan and the Union of Soviet Socialist Republics if statistics were available. In the same way, the Scandinavian group, in which national incomes were little reduced during the depression, is not well represented by Norway, where depression continued into 1933. In Sweden and Finland, for example, the recovery of national income since 1932 has been very rapid.

Before the effects upon consumption and living standards of these various changes in national incomes can be analysed, it is necessary to go behind the aggregate figures in order to discover the variations of income as between different groups in the community. The real burden imposed by the falling commodity prices that were typical of the depression came from the fact that certain commodities and services fell rapidly while others had their prices sheltered from competition. The deflation that has been attempted in many countries as a means of restoring price equilibrium with the external market has encountered its greatest difficulties in these sheltered prices. Wherever the external market dominated the economy of a country, the effort at deflation has necessarily been given up. Not only in the agricultural-exporting countries that abandoned the gold standard, but also in many industrial and agricultural countries working behind exchange controls, the attempt to break sheltered prices has now been replaced by measures designed to bring unsheltered prices, and therefore the income of unsheltered groups, back to the level of the sheltered.

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[1] The Polish national income fell from 17,400 million zloty in 1929 to 8,900 million zloty in 1934 (*Wirtschaftsdienst*, September 20th, 1935).

The sheltered groups were not the same in every country. Thus, in Canada [1] between 1929 and 1932, income from construction shrank by 73%, that from agriculture by 62%, that from manufacture by 36%, and that from mining by 31%. In New Zealand, [2] during the same years, incomes from pastoral production fell by 55%, from dairying by 25%, from manufactures by 22% and from agriculture by 19%. In Greece [3] between 1929 and 1931, incomes derived from foreign investments fell by 67%, and those derived from banks and companies by 66%, while incomes from industry declined only by 16% and those from agriculture by 10%.

Whatever the particular grouping in any country, it is clear that deflation fell most harshly upon the more exposed competitive groups, especially those which had to meet the demoralised competition and chaotic financial conditions that developed in the world market. As these unsheltered industries were forced into violent contraction, the whole structure of national prices was disrupted in a degree that it was impossible to remedy quickly by action within any one country. The result was a paralysing deadlock which degenerated into secondary deflation and was met either by currency devaluation and depreciation or by increasing national isolation. More than a decline in aggregate national income was involved. The balanced organisation of national and international production and trade was thrown into chaos.

The gradual reconstruction of a broken world that has been in progress since about the middle of 1932 has done something to restore national incomes in many countries. In this reconstruction, part of the inequity created by the deflation has been remedied, but, before any judgment can be formed as to the effects upon real income, it is necessary to study the trends of consumption revealed by such statistics as are available.

The problem is not simply one of restoring the balance that existed before 1929. Indeed, there is every reason to believe that the 1929 balance was untenable. In every country, and internationally, it is necessary, if recovery is to endure, to shift resources and energy from less to more profitable uses. In part, this may be attempted by deliberate Government action. In greater part, however, it must depend upon movements of relative prices which discourage inefficient and encourage efficient production, thus causing a better distribution of resources both industrially and geographically. A great part of Government action during the depression has been protective of threatened interests and a strong case can usually be made out for such protection during any period of violent and erratic change. It would be tragic irony, however, if, out of the wreck of a broken world system, the Governments carefully constructed national replicas with much the same faults but on a smaller and less efficient scale. The violent price movements of the deflationary period were very largely a feverish attempt to find new bases of national and international equilibrium. Gradually, their violence has been brought under control and production, much more sheltered and coddled in many respects, has begun to increase again in many countries. But is it the production that the new world demands, organised in the most economical and efficient areas of specialisation ? The tale will be told by the trends of consumption. Monetary incomes are increasing again. Does this mean that the real incomes are rising ? Is the common man, the consumer, getting in greater abundance the commodities and services towards which his demands are extending ?

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[1] *Canada Year-book, 1934-35.*
[2] *Official Year-book, 1935.*
[3] Banque d'Athènes, *Bulletin mensuel*, September 1933.

The Demand for Food.

Consumption is perhaps the aspect of economic organisation which is least explored either theoretically or statistically. The material available concerning production and trade is much greater than that concerning the use made of the commodities produced and sold. It is true that individual producers and traders, for their own purposes, devote increasing attention to marketing surveys in which they analyse the possibilities of consumption for their own products; but, even when such surveys are undertaken by trade associations, they fail to consider the field of consumption as a whole.

The few attempts that have been made to give a complete picture of national consumption are generally confined to conditions at a given moment rather than to a study of consumption changes over a period of time. Even the comprehensive planning undertaken in the Union of Soviet Socialist Republics tended at first to ignore and later to under-estimate the necessity for detailed studies of consumers' needs, and it is in this field that some of the most difficult problems of planning have arisen.[1] In the absence of detailed statistics of national consumption, it is only possible to utilise the material available concerning particular aspects of the problem. These refer mainly to certain elementary commodities, particularly to foodstuffs.

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[1] *Cf.* Sidney and Beatrice Webb: " Soviet Communism: A New Civilisation ? " London, 1935, Vol. I, Chapter IV: " Man as a Consumer ", pages 304 *et seq.*

There is growing recognition of the fact that, as incomes rise, the character of consumption changes. As early as 1845, Karl Friedrich Engel stated the results of his observations concerning the proportion of expenditure devoted to food and other necessities at different levels of income. Engel's law has been verified repeatedly by statistical enquiries in many countries. As income rises, the percentage spent on food tends to fall. For other classes of expenditure there is more variation. Elements other than biological necessity enter into the reckoning. For example, the relative expenditure on housing tends to fall in the middle income ranges; but, after a certain point, ostentation and emulation cause a sharp increase. Expenditure on clothing is subject to the same sort of influences.

It is curious to note that, for the three countries in which estimates have been worked out for the entire national consumption, the proportion spent on food is strikingly similar.

The Expenditure of National Income in Certain Countries.[a]

	Canada 1926	Sweden 1927	United Kingdom 1924-1927
	%	%	%
Food	30	31	31
Clothing	18	15	11
Rent	20	10.5	13
Fuel and light	6	10	
Household expenses . .	4	.	4
Other expenditure . .	26	29.5	45

[a] *Sources:*
Canada — Dominion Bureau of Statistics, "Price and Price Indices, 1913-1928".
Sweden — Lindahl, En Svensk Levnadskostnadsindex, *Ekonomisch Tidsskrift, 1931.*
United Kingdom — Feaveryear: "The National Income", *The Economic Journal, 1934.*

There is abundant evidence, however, from national enquiries at different times in many countries that the percentage expenditure on food varies at different income levels.[1] It is possible that the percentage of total national income devoted to food might be used as a rough indication of relative living standards as between the nations; but, in such comparisons, account would need to be taken of the fact that expenditure on food — and still more on clothing, fuel and housing — varies with climate, social organisation and many other factors.

It is more interesting to turn from international comparisons of doubtful validity to the statistical evidence in each country concerning food consumption during the years of depression and recovery. Interest in this question has been growing and there is an increasingly voluminous literature available. The great variety of foodstuffs now available in most countries makes measurement rather more difficult than in the past. It is no longer sufficient to rely upon simple figures concerning the quantities of a few staple foods. Actual shortage of food supplies is happily becoming rare. There is enough to eat for all but relatively small sections of the poor in most countries, though not in the densely populated and poverty-stricken lands of the Far East. The problem therefore becomes one, not of minimum, but of optimum standards. What progress is being made towards standards of living that will resist disease and promote vitality ?

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[1] *E.g.*, in China, a percentage as high as 72, in Denmark a percentage as low as 31, has been recorded for working-class budgets.

For such measurements, it would be useful to have a standard into which the various food values could be combined. Such a common denominator is sometimes found in the energy-content of the various food commodities. The different items of food are translated into calories. The results of such calculations are available for certain countries as follows:

Annual Consumption of Food in Calories per Head of Population.[a]

(000's.)

	1909 -1913	1924 -1928	1926 -1930	1929	1932	1933	1934
Germany	1,073	1,044	.	1,070	1,025	1,012	1,035
Italy	900	.	1,021	.	1,048	.	...
Netherlands Indies (Java)	.	.	628	565	615	622	...
United Kingdom .	1,117	1,114	.	.	.	.	1,183

[a] *Sources:*
Germany — *Berichte über Landwirtschaft*, Sonderheft 115.
Italy — *Annuario Statistico, 1936.*
Netherlands Indies — *Indisch Verslag, 1934*, Batavia, 1934.
United Kingdom — E. M. H. Lloyd: "Food Supplies and Consumption at Different Income Levels." *Journal of the Agricultural and Economic Society, 1935.*

The first comment to be made on this table concerns the adequacy in energy-content of the foods consumed. The Expert Committee appointed by the League to report on nutrition standards agreed upon a standard for daily consumption of 2,400 calories (876,000 per annum).[1] For adult men in heavy work, a higher figure is usually given, while, for men and women engaged in lighter work, supplements to this figure are also necessary. The calories actually consumed in the United Kingdom work out at an average of 3,240 per day for every man, woman and child. The comparable figures for Germany and Italy are somewhat lower, but still high. There is evidently no lack of calories in the average diet of the peoples of Western Europe.

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[1] *Cf.* League of Nations "Report on the Physiological Bases of Nutrition", Geneva, 1935 (document C.H. 1197), page 9.

"An adult, male or female, living an ordinary everyday life in a temperate climate and not engaged in manual work is taken as the basis on which the needs of other groups are reckoned. An allowance of 2,400 calories net per day is considered adequate to meet the requirements of such an individual.

"The following supplements per hour of work for muscular activity should be added to the basic requirements:

"Light work up to 50 calories, moderate work 50-100 calories, hard work 100-200 calories, very hard work 200 calories and upward."

Much lower figures, it will be noted, are given for the Netherlands Indies. It is possible that an intake of 1,720 calories daily as an average for the whole population — men, women and children [1] — of a tropical country is not unduly low; but the Netherlands Indies is among the richest of the Asiatic communities. There are others where great populations are definitely under-nourished.

The second comment that may be made is the comparatively small extent to which consumption, in terms of calories, was reduced during the depression years. In Germany, where the most complete statistics exist, the reduction in 1933 was less than 6% from the pre-war standard, and some of this was regained in 1934. In the United Kingdom, the number of calories consumed seems to have increased substantially. It is interesting to note that the fall was earlier and heavier in the Netherlands Indies. An index compiled in Finland [2] shows the same sort of fall (8% in 1929 from the 1924-1928 average), suggesting that the raw-material-exporting countries suffered most heavily at the beginning of the depression, when they increased their exports heavily and restricted imports in an effort to discharge external debt service.

It is possible, however, to obtain the necessary calories from vastly different combinations of diet. In a period of depression, great numbers of the population are forced to

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[1] The energy requirements for other ages and for mothers are given as follows (Report, *op. cit.*, page 10):

Age (years)	Calories	Age (years)	Calories
1-2	720	9-11	1,920
2-3	960	11-12	2,160
3-5	1,200	12 and upwards (male and female)	2,400
5-7	1,440	Women: Pregnant	2,400
7-9	1,680	Nursing	3,000

The muscular activities characteristic of every healthy child and adolescent necessitate additions to these basic requirements, It is suggested that the activities of children of both sexes be considered as equivalent to light work, of boys from 11-15 years as moderate work and of girls from 11-15 upwards as light work.

Allowance must also be made for women engaged in household duties, whether pregnant or not; these have to be reckoned as equivalent to light work for eight hours daily.

[2] Bank of Finland, *Monthly Bulletin*, December 1935.

choose cheaper diets.[1] On the other hand, the heavy falls in world prices have placed many foodstuffs within the purchasing range of larger numbers of the population, especially in countries where international trade has remained relatively free. The effect of these price and income changes upon demand may be measured in the aggregate by calculating a "quantum" of food consumption. Such an index has been calculated for the United Kingdom by Mr. E. M. H. Lloyd.[2] In the pre-depression years 1924-1928, the index was 7½%, and by 1934 it had risen to 25%, above the pre-war level. Evidently, in the United Kingdom, more and better food was being consumed. Much the same trend is indicated by the studies of Professor Dupriez and Borboux[3] in Belgium, but their index does not include the important dairy products such as butter, milk and eggs. A quantum index for Italy[4] has been calculated also which shows that, up till 1932, food consumption had increased by 3%, but in 1933 had fallen by 6% from the average level of 1926-1930.

These general calculations, though interesting and valuable, need to be supplemented by more detailed studies of different commodities before any opinion can be formed as to the effect of the depression and subsequent recovery upon real income as far as the consumption of food is concerned. There are great differences in the degree to which the demand for particular foodstuffs is elastic. In the more expensive foods, elasticity is more pronounced. Elasticity increases as income decreases. The demand for fruit or milk may be almost inelastic in the higher income-groups, but highly elastic as one descends the scale of income.[5]

The statistics of food consumption in recent years, therefore, reflect the combined result of many factors of economic

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[1] The Danish Statistical Department has worked out the following table showing the different prices per 1,000 calories of various foodstuffs in Copenhagen in July 1933:

	Kroner per 1,000 calories		Kroner per 1,000 calories
Wheat flour	0.07	Pig fat	0.70
Rye flour	0.08	Cream	0.94
Sugar	0.10	Eggs	1.09
Margarine	0.20	Herrings	1.20
Butter	0.25	Beef	1.28
Milk	0.39	Cod	1.38
Pork	0.43	Beer	1.84

[2] "Food Supplies and Consumption at Different Income Levels", Agricultural Economics Society, London, 1935.

[3] "Indices de la consommation en Belgique de 1897 à 1933", *Bulletin de l'Institut des Sciences économiques*, février 1934.

[4] Compiled in the Secretariat on the basis of figures given in the *Annuario Statistica 1935*. The prices used in the compilation were the average prices for the period 1926-1930.

[5] *Cf.* E. M. H. LLOYD: "Food Supplies and Consumption at Different Income Levels", Agricultural Economics Society, London, 1935. The elasticity of demand, based upon a study of 12,000 family budgets collected by co-operative societies is classified as follows:

Elasticity greater than unity	Fruit Vegetables Milk Fresh milk Fresh fish Eggs Butter Cheese	Elasticity less than unity	Sugar Lard Suet Dripping Bread Potatoes
		Negative elasticity	Condensed milk Margarine

Elasticity equal to unity: Meat

[*Continued on following page.*

change. On the side of demand must be considered the fall in income during the depression years, and the distribution of that fall over the income-groups. At the same time, improved knowledge of diet has educated demand towards the foodstuffs which in the past have been subject to elastic demand. Housewives who know more of the protective qualities of fruit, vegetables, milk and butter will respond more effectively than in the past to any lowering of prices or increase of purchasing power. On the side of supply, account must be taken of the disturbed economic conditions of recent years which tended to increase the supplies and to lower the prices of agricultural commodities, until within the recovery period national action tended once more to limit supplies and raise prices.

It is natural to find that the strong trend towards increased consumption of the protective foodstuffs was further emphasised by the lower prices of the depression period. Whenever increased supplies at lower prices have come on to the market, purchasers have extended their demands. A striking example is furnished by the statistics of grape-fruit production, which in 1925-1927 averaged 15,400,000, but increased in 1934-1935 to 25,000,000 and at the present annual rate of increase may reach 35,000,000 in 1938-1939 and 50,000,000 boxes in 1945-1946.[1]

There has been a general tendency for world production and world trade in citrous fruits to increase rapidly; but the increase of consumption has been very unevenly shared among the principal importing countries. Thus the world trade in oranges and tangerines increased by about 35% from 1924-1928 to 1933; but the imports increased as follows:

Imports of Oranges and Tangerines per Head of Population.[a]

Country	Average 1924-1928	1933	Percentage increase
Sweden	11 pieces	34 pieces	209
France.	17 ,,	42 ,,	147
Belgium	25 ,,	60 ,,	140
United Kingdom . . .	52 ,,	76 ,,	46
Germany.	20 ,,	25 ,,	25
Hungary	6 ,,	7 ,,	12
Yugoslavia	2 ,,	2 ,,	0
Poland	3 ,,	1 ,,	—67

[a] International Institute of Agriculture, *Year-book, 1933/34.*

[*Continued from preceding page.*

A German study (W. Bauer, "Einkommen und Fleischverbrauch", *Vierteljahrsheft zur Konjunkturforschung,* Sonderheft 28), gives the following measurements:

Commodity	Coefficient of elasticity	
	Labour households	Salaried officials
Coffee, tea, cocoa, chocolate and other sugar products	1.04	0.97
Vegetables and fruit	1.04	0.93
Meat and meat products	0.79	0.74
Eggs, milk and milk products	0.78	0.73
Potatoes	—0.03	—0.03
Rye, mixed or black bread	—0.37	—0.36

[1] United States, Dep. of Agriculture, Information Office P. I.. of February 3rd, 1936: "World Grape-fruit Production".

The consumption of milk, on the other hand, seems to have fallen in most countries for which statistics are available. Milk production has greatly increased; but a larger proportion is utilised for making butter and cheese. The consumption of fresh milk in Vienna, for example, fell by 11 % between 1929 and 1934. In Germany, despite an increasing population, the amount of milk consumed fell by 11 % from the average in 1924-1928 to 1934. In the United Kingdom, in the same period, the fall was 12 %. In Switzerland, during the depression years from 1931 onwards, there has been a progressive fall of milk consumption, amounting by 1934 to 12 %. Only in Italy, among the countries for which consumption figures are available, was there a clear increase, from 42 litres in 1924-1928 to 66 litres in 1933, but even the higher figure is extremely small, little more than a quarter of the Swiss consumption. It is suggested in the United Kingdom, that the decline in popularity of porridge and rice puddings and the increased demand for fruit may have contributed to the fall in milk consumption. The primary reason, however, appears to be the falling birth rate in most industrialised countries. The campaign for milk as a beverage has not yet offset its decreased use for infant feeding.

In neither of these important groups of foodstuffs is it possible from the statistical evidence to judge definitely whether the depression and subsequent recovery have on balance increased or decreased consumption. In the case of fruit, the rapid increase of consumption has continued in most countries; in the case of milk, there does seem some evidence that declining consumption was accentuated in the depression years.[1] More abundant material and more refined statistical treatment would be necessary, however, to prove any clear tendency.

The consumption of eggs is also highly elastic and here there seems definite evidence that, with falling prices, consumption increased until, with recovery, prices began to rise, since when, in most countries, consumption has declined. In Vienna, the index fell between 1930 and 1934 by nearly 40 %, two-thirds of the fall being in 1933 and 1934, when prices were rising. In Germany, average annual consumption per head in 1924-1928 was 113. It increased to 141 in 1930. By 1934 it had fallen to 117. In Italy, the average consumption for 1926-1930 was 6.33 kg.; in 1933 it was 4.40 kg. In Denmark also, there was a fall from 6.4 kg. in 1928 to 4.8 kg. in 1934.[2] In the United Kingdom, consumption rose from an annual average of 142 in 1924-1928 to 179 in 1931. In subsequent years, there was a tendency to decline, so that the figure was 165 in 1933, but recovered somewhat to 172 in 1934.

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[1] In Switzerland and Vienna, milk consumption was increasing in the years of prosperity but fell sharply in the depression.

[2] The export markets for other foodstuffs were more restricted and therefore they fell more in price, so that it became cheaper in Denmark to eat other foods and sell eggs.

Meat consumption, however, has on the whole tended to increase. There is not sufficient information to measure the extent to which cheaper meat has been substituted for dearer varieties;[1] but consumption as a whole is greater in most countries than before the depression.

Total Meat Consumption.[a]

(lb. per head.)

Country	1929	1930	1931	1932	1933	1934
Australia.	214	199	190	190	217	213
Belgium	84	88	93	88	92	91
Canada	153	146	148	149	137	141
Czechoslovakia	78	76	77	72	67	...
Denmark	93	104	104	126	146	145
France.	75	72	72	74	75	77
Germany.	103	100	101	98	98	105
Italy	44	37	38	35	36	34
Netherlands	81	82	91	92	98	...
New Zealand	234	211	278	231	216	246
Norway	73	72	75	76	74	80
Poland	41	39	42	42	40	41
Switzerland	101	101	109	112	106	114
United Kingdom . . .	139	140	143	145	144	143
U.S.A..	136	132	135	136	140	140

[a] League of Nations: Mixed Committee on the Problem of Nutrition: Documentation prepared by the International Institute of Agriculture (document A.12. 1936, page 41).

Although complete statistical proof is lacking, there seems no reasonable doubt concerning certain general tendencies in recent years. A more scientific appreciation of nutritive values has been spreading throughout the world, demand has proved to be increasingly elastic for the foodstuffs that have come to be called "protective", those containing certain essential minerals as well as vitamins. Already it is clear from comparisons

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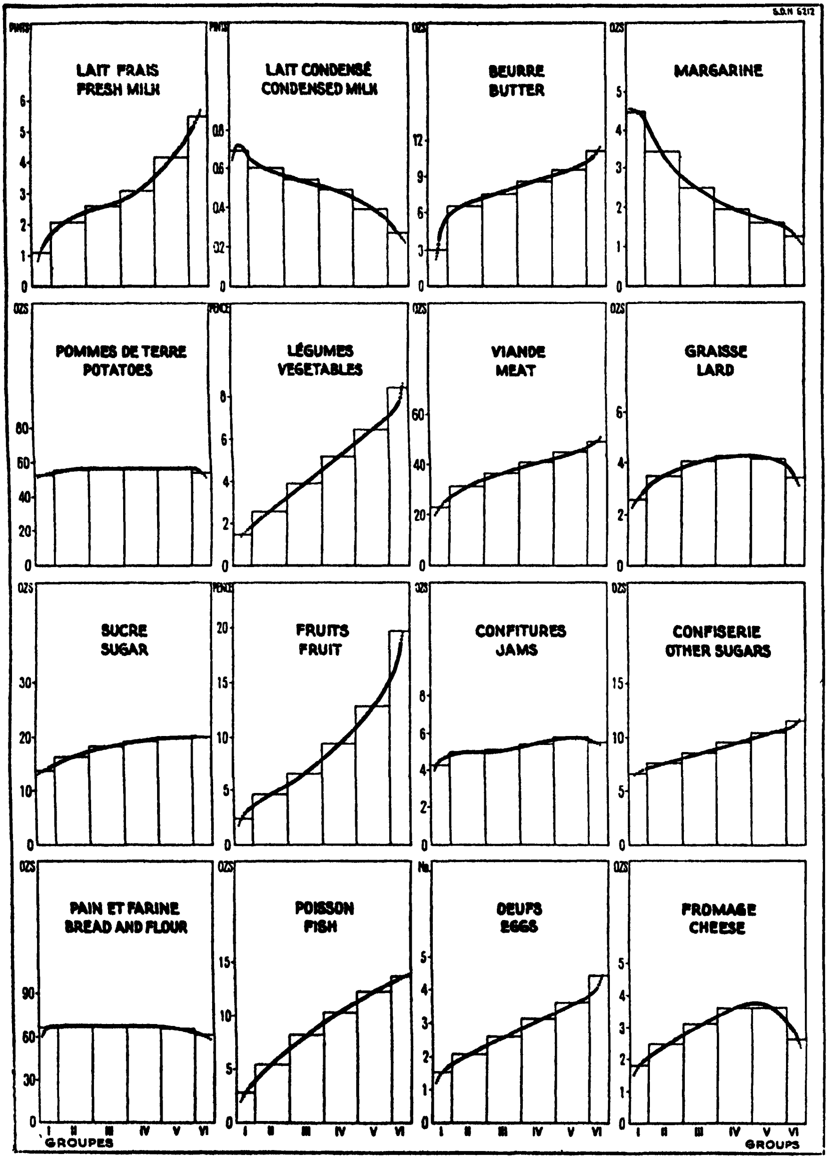
[1] The following statistics of consumption per head indicate that there has been some considerable change in this direction:

	1929 kg.	1934 kg.
Czechoslovakia:		
Beef and veal. . .	13.05	11.58
Pork	12.18	13.52
Netherlands:		1933
Beef and veal . .	19.30	19.60
Pork	17.00	20.00

	1929 lb.	1933 lb.
United Kingdom:		
Beef and veal	70	63
Mutton and lamb . .	28	34
Pork	43	48

Estimated Consumption per Head and Week of Certain Foodstuffs by Income-groups.[a]



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[a] John Boyd Orr: “Food, Health and Income”, London, 1936.

of consumption by different income-groups that, whenever the income is sufficient, greatly increased quantities of fruit, vegetables, fresh milk, butter, fish and eggs are demanded, while the demand for meat increases rather less. On the other hand, the demand for bread and flour, potatoes, lard, suet and dripping, sugar and jams is practically stationary, while that for condensed milk and margarine falls rapidly as income rises. These tendencies quite clearly indicate the desires of the people. If income and therefore purchasing power rises, or the price of food falls, demand will turn rapidly to the protective foods.

During the depression, wherever trade remained relatively free, the price of these commodities fell further than national incomes. While the beneficial effect did not extend equitably over the whole community, the gain to those whose incomes enabled them to purchase increased quantities of the protective foods was sufficient to absorb a much greater volume of production. There was, for all but the least fortunate sections of the community, including, however, whole nations that were subject to special restrictions, a distinct gain in real income.

It seems clear that the years of recovery have in some measure reversed this tendency. It is normal for increased employment and rising prices to lower real wages in such a period; but increased purchasing power in the hands of larger numbers of people offsets this temporary loss to the more fortunate classes. At the present time, account must also be taken of the degree to which purchasing power has been decreased in many countries by the rise in prices caused largely by restrictive trade policies. While it would be difficult to prove that such policies have in any particular country had the effect of reducing real income, there is no doubt that in many cases they have discouraged the consumption of those products for which demand is most elastic and therefore likely to increase most rapidly as national income rises.

It so happens that the new dietary improvements now demanded can best be brought about by an increase of international trade. Experts in nutrition agree on the broad policy that ought to be followed. Put in its simplest terms, the great industrial populations need to consume increasing quantities of milk, fruit, vegetables, eggs, fish and meat. Practically all of the industrial countries are deficiency areas, needing to import foodstuffs; but all of them have agricultural industries to which they attach great value. In order to protect their domestic agriculture, they have recently imposed trade restrictions of a complexity and efficacy hitherto unknown. Unfortunately, the chief result has been to foster the production mainly of the commodities of which the world now has a surplus and from which demand is turning under the influence of dietary change. So the production of wheat in "importing Europe" has increased by about 25% since the depression.

There is perhaps no other aspect of economic organisation where the dangers of negative protection as distinct from the encouragement of new economic tendencies is more clearly illustrated than in agriculture. The spread of scientific knowledge has led to expanding demands for foodstuffs, the supply of which in increasing quantities offers the best hope of prosperity for agriculture in the importing areas and relief for the great exporting countries. Protection designed, not to encourage these new elastic demands, but to maintain the competitive position of older staples has aggravated the world agricultural problem. Wheat, sugar and similar commodities have been produced in greater volume in the former importing countries. At the same time, demand has fallen, so that the protected agriculture is not prosperous, while the exporting areas are driven out of the market. Price discrepancies between sheltered and unsheltered markets become so great as to cause increasing isolation. Behind the trade barriers, monetary income grows; but, in extreme cases, this represents only higher prices for lowered living standards and, even where trade is relatively freer, the improvement of living standards is not as great as it would be if the consumer were able to exercise his undoubted preference for a diet which, in its variety, cheapness and adequacy, can be assured only by worldwide specialisation and interchange.

Recovery in Current Consumption.

It has been shown that average expenditure on food was not greatly reduced in the depression. It so happened that, whenever trade remained relatively free, the foodstuffs for which demand is most elastic were plentiful at low prices, so that consumption tended to increase. With recovery, there has been increasing control of the trade in these foodstuffs and prices have been raised, so that the expansion of consumption tends to be checked. In some food-importing countries where trade restrictions are particularly severe, food consumption has fallen in the aggregate and has been diverted from imported to domestic produce. Such diversion has generally run counter to the changes in diet recommended by scientific experts in nutrition. This is a particularly unfortunate development, not only from a nutrition standpoint, but also because it perpetuates and aggravates the price disparities between national markets and therefore hinders the recovery of world trade. In several food-exporting countries, there has of course been increased consumption because of abundant supplies at low prices.

There was good reason to expect that the actual consumption of other commodities and services would be more affected by the changing levels of income. The elasticity of demand for the main items of family expenditure varies with the urgency of the want that is satisfied. Commodities that can be economised or dispensed with, or used over longer periods or the purchase of which can be postponed, naturally have, at least in the short period, greater elasticity of demand than food and other essentials.

It is obvious that, within each group, there is a fairly considerable range of elasticity. Some health and clothing expenditure, for example, would take precedence even over certain foods. Nevertheless, it is natural to find that, as far as current expenditure is concerned, clothing and furniture suffered more than food during the depression and recovered more when recovery set in.

Statistics of retail sales are more abundant than they were even a few years ago; but, for the most part, they are statistics of value, so that it is extremely difficult to discover how far consumption suffered quantitatively in the depression. Even where, as in a few countries for which statistics are given below, estimates are made of the quantum of clothing sold,[1] there remains the problem of quality. It is impossible to resist the suspicion that the marked increase in quantity recorded in some countries in the last year or two is connected with the use of substitute materials and a consequent deterioration of quality.

It will be noticed that the fall in consumption between 1929 and 1932 is substantial in most countries, particularly in the agricultural exporting areas. There is evidence also that the agricultural areas within almost every country reduced their consumption more than did the urban areas. Thus, in Canada, the total of retail sales fell by 45% in Saskatchewan, but only by 33% in Ontario.

The detailed statistics necessary for further analysis are lacking; but note may be made of the conclusions drawn from such statistics in the United States. Men's clothing was affected by the depression before that of women, but since "at all times, men in the aggregate tend to buy only so many clothes as are

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[1] In the case of Chile, Hungary and the United States, quantum figures are calculated in the countries concerned. For the other countries, the figures given in the table represent a rough calculation arrived at by comparing the value of the retail sales with the index numbers of retail prices of clothing. There is, therefore, a margin of error in the calculations which, however, probably does not invalidate the trend of the movements shown.

Quantum Indices of the Sale of Clothing in Certain Countries.[a]

(Base: 1932 = 100.)

Country	1929	1930	1931	1932	1933	1934	1935
Austria	137	127	130	100	91	89	98
Belgium[b]	110	112	107	100	100	104	104
[c]	127	118	107	100	96	90	103
Canada[d]	.	109	107	100	101	116	118
Chile	204	220	131	100	103	102	126
Germany	109	104	106	100	102	114	108
Hungary	162	165	157	100	85	114	119
Italy	103	88	96	100	112	122	...
Switzerland	.	.	.	100	106	109	107
United Kingdom	.	.	102	100	104	104	109
U.S.A.	98	102	104	100	97	102	...

[a] *Sources* :
Austria — Institut für Konjunkturforschung, *Monatsbericht*, January 1936.
Belgium — Banque nationale de Belgique, *Bulletin d'information et de documentation*, 25 avril 1933, 25 décembre 1935.
Canada — Dominion Bureau of Statistics, *Year-book, 1934-35*, and "Changes in the Value of Retail Sales", December 1935.
Chile — Banco Central, *Boletin Mensual.*
Germany — *Konjunkturstatistisches Handbuch*, 1936.
Hungary — Ungarisches Institut für Wirtschaftsforschung, *Bericht* Nr. 26, 1935.
Italy — *Annuario Statistico, 1935.*
Switzerland — *La Vie économique, 1933-1935.*
United Kingdom — *Board of Trade Journal.*
United States — Arthur R. Tebbutt: "The Behaviour of Consumption in Business Depression", Harvard University Business Research Studies, 3, August 1933.

[b] Co-operatives and individual stores.
[c] Department stores.
[d] All apparel, entire country.

absolutely necessary, while they may postpone demand for new clothing (as in 1930) by wearing their existing clothes a little longer, their supply of suits and furnishings is so small that replacement soon becomes essential (as in 1931)".[1] The same distinction may perhaps be found in other countries, but it is improbable, on the evidence of the table quoted above, that the consumption of clothing was as well maintained during the depression in other countries as in the United States up till 1932.

This quantitative table, however, needs to be supplemented by the available statistics of the value of consumption. In certain countries, of which Switzerland is the clearest example, prices have fallen heavily, so that the total value of consumption has fallen, though the quantities purchased have increased. This development is of course precisely similar to that noticed in food consumption during the years of falling prices. In other countries, there is quite clearly an increase of purchasing power in the last two or three years, higher prices and increased turnover, as in the United Kingdom, combining to give a higher figure of total sales.

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[1] Arthur R. Tebbutt: "The Behaviour of Consumption in Business Depression", Harvard Business Research Studies, Vol. XX, No. 6, August 1933.

Indices of the Value of Retail Sales of Clothing. [a]

(Base: 1932 = 100.)

Country	1929	1930	1931	1932	1933	1934	1935*
Austria	152	142	131	100	89	86	94
Belgium [b]	120	120	114	100	96	96	98
[c]	139	131	114	100	92	83	92
Canada [d]	.	167	.	100	90	109	116
[e]	.	151	.	100	77	95	91
Chile	155	163	95	100	113	132	157
Germany	168	152	129	100	98	114	115
Hungary	192	186	164	100	81	105	110
Italy	151	118	107	100	105	107	...
Switzerland	.	.	.	100	98	95	92
United Kingdom	.	.	105	100	102	105	109
U.S.A.	159	146	130	100	97	108	...

* Provisional.

[a] Sources indicated on page 120.

[b] [c] See notes [b], [c], on page 120.

[d] Men's clothing } in a certain number of department stores.
[e] Women's clothing }

As might be expected, the consumption of furniture shows a greater fall during the depression and a greater recovery since 1932 than can be noticed either in food or clothing. It is easier to postpone the purchase of furniture, there is in any case a tendency towards postponement of marriage, and, as will be argued later, much the greater part of the economies practised during a depression is concentrated upon housing facilities. With the advent of recovery, on the other hand, there is a marked expansion of furniture sales, particularly since the recovery has been so intimately connected with the provision of improved housing.

Indices of the Value of Retail Sales of Furniture.

(Base: 1932 = 100.)

Country	1929	1930	1931	1932	1933	1934	1935
Austria	133	128	131	100	74	65	71
Belgium	141	140	112	100	100	89	106
Canada	.	174	.	100	95	115	126
Germany	182	158	143	100	96	125	122
Hungary	160	141	124	100	94	101	...
Switzerland	.	.	.	100	97	95	86
United Kingdom	.	.	106	100	104	112	116
U.S.A.	128	110	112	100	118	105	151

The general tendency to increase that is evident in this table, except for Austria and for Switzerland (which is typical of the countries where deflationary forces are still operating), is significant of recovery. The proportions of increase are obviously much greater than any rise in prices which has taken place. Consumers are buying again. Delayed purchases are now being made. New homes are being set up and better housing facilities have encouraged this development. The increases, moreover, are greater than those generally registered in the more stable fields of consumption — food and clothing.

That consumption is expanding generally once more is evident from the fuller statistics of retail trade that are available for some countries. This tendency is best expressed in tabular form:

Indices of the Value of Retail Trade in Certain Countries.[a]

(Base: 1932 = 100.)

Country	1933	1934	1935
Austria	94.7	94.7	98.7
Canada	92.4	96.9	98.6
Chile	101.8	104.5	119.8
Germany	95.4	105.8	102.4[b]
Switzerland	97.9	95.5	93.4
United Kingdom	100.0	103.3	104.0
U.S.A.[c]	81.8	93.7	91.9

[a] *Sources:*

Austria — *Monatsbericht des Österreichischen Instituts für Konjunkturforschung.*
Canada — "Changes in the Value of Retail Sales", published by the Ministry of Trade and Commerce.
Chile — *Boletin Mensual* de la Banco Central.
Germany — *Konjunkturstatistisches Handbuch, 1936.*
Switzerland — *La Vie économique.*
United Kingdom — Bank of England: *Statistical Summary.*
U.S.A. — "Conference Board Business Survey", January 20th, 1936.

[b] Figure indicated for the first nine months.

[c] "Chain Store Age" Index (thirteen companies) (1929-1931 = 100).

A contrast may, however, be drawn between the situation in Switzerland and that in the United Kingdom. The relevant figures are given in the tables which follow. It is evident that the decrease in Switzerland is not only continuing, but continuing at a cumulative rate of decline.

Retail Trade in Switzerland and the United Kingdom.

(Base: 1932 = 100.)

SWITZERLAND.[a]

Commodities	1933	1934	1935 First half
Food and perishables	99	98	94
Clothing and textiles	98	95	86
Heating materials	92	86	73
Furnishings	97	95	82
Leather, paper and rubber goods	96	94	83
Chemical products	96	94	86
Watches, hardware and typewriters	94	90	74
Books	95	91	82
Sports articles	111	102	106
Total	98	96	88

[a] *La Vie économique.*

UNITED KINGDOM.[*]

Commodities	1933	1934	1935
Food and perishables	99	105	103
Piece goods	101	96	102
Household goods	102	96	106
Dress materials	99	97	99
Women's wear	102	101	103
Fashion departments	103	99	107
Girls' and children's wear	101	100	103
Fancy drapery	101	100	103
Men's and boys' wear	104	100	107
Boots and shoes	100	95	111
Furnishing departments	104	97	108
Hardware	109	95	111
Fancy goods	103	100	105
Sports and travel	99	104	100
Total	100	103	104

[*] **Bank of England:** *Statistical Summary.*

The general conclusion of this brief survey of retail trade statistics is clear. Except in the countries where contraction has continued in an effort to bring the price-structure into equilibrium with those of other countries whose currencies have been devalued, the value of retail turnover has been increasing at a cumulative rate in the years since 1932. The sales of less necessary commodities have increased at a faster rate than those of food and much faster than any increases of retail prices that have been recorded. They have in fact been increasing faster than the estimates of national income that are available. This conclusion is reinforced by the fact that estimates of national income have reached the 1929 levels in very few countries; but retail sales have in many cases gone beyond those levels. As will be seen in the following section, the purchases of goods and services of durable consumption have been increasing faster still in most countries.

INCREASED CONSUMPTION OF DURABLE GOODS.

Recovery from the depression has, since the middle of 1932, taken the typical cyclical course. Food consumption, measured in monetary values, has not fluctuated greatly, though there have been shifts in demand according to price changes. Sales of less urgent articles for current consumption have, in most countries, increased at a cumulative rate. The level of current consumption during 1935 in many countries was higher than in 1929. But the greater part of the recovery has been in the expanding demands for articles of durable consumption. As these demands have expanded, they have increased the profit expectations of those responsible for the organisation of industry.

For a time, existing plant and resources proved equal to the production demanded and, when the need for improved or increased equipment became evident, it was possible to provide for such investment without calling upon the public for new capital by utilising credit resources that were available. Orders for machine tools have risen rapidly in the United States, for example, before any great increase in capital issues has been found possible or necessary. The definite enlargement of capital equipment by diverting purchasing power from current consumption comes at a later stage in the development of the cycle.

In this section, attention is drawn to the rapid increase in recent years of certain forms of durable consumption for which statistics happen to be available. In part, as will be evident from the rent statistics cited below, this increased demand has been stimulated by lowered prices. It is in this respect that the cheapening of interest rates has perhaps been most influential. In part, however, the revival of demand has been a natural consequence of increasing purchasing power and restored confidence.

It will be seen that there are certain countries in which, after a considerable increase, building activity seems to be slackening off and others in which contraction has not ceased. For the most part, however, there has been, and still is, a greater demand for housing accommodation than during the depression.

Indices of Residential Building Activity.[a]

Country	Unit	1929	1932	1933	1934	1935
Union of South Africa	Value (£S.A. 000,000's)	.	2.0	2.1	4.2	6.9
Argentine	Sq. metres (000's)	.	1195	1144	1484	932
Australia	Value (£A. 000,000's)	4.2	5.7	8.6	14.0	20.4
Canada	Value ($C. 000,000's)	235	39.5	21.6	26.8	46.3
Czechoslovakia	Cub. metres (000,000's)	.	6.5	3.3	2.7	1.9
France	Index	100	81	74	67	56
Germany	Rooms (000's)	548	196	276	424	251
Japan[b]	Sq. metres (000's)	491	1997	1722	1641	1786
Netherlands	Dwellings (000's)	47.3	41.3	44.4	52.6	42.2
Sweden	Rooms (000's)	29.3	34.9	23.3	27.1	43.6
Switzerland	Residences (000's)	2.9	2.7	2.5	2.7	1.7
	Apartments (000's)	9.3	13.2	9.9	11.0	6.7
United Kingdom	Houses (000's)	71	91	119	137	157
U.S.A.	Sq. feet (000,000's)	388	74	73	64	137

[a] *Sources* :
Union of South Africa — *Monthly Bulletin of Union Statistics.*
Argentine — *Revista de Estadistica Municipal,* Buenos Aires.
Australia — *Quarterly Summary of Australian Statistics.*
Canada — *Monthly Review of Business Statistics.*
Czechoslovakia — Communication de l'Office central de Statistique.
France — *Bulletin de la Statistique générale de la France.*
Germany — *Vierteljahrshefte zur Konjunkturforschung.*
Japan — Statistical Abstract for Tokio.
Netherlands — *Maandschrift.*
Sweden — *Sociala Meddelanden.*
Switzerland — *La Vie économique suisse.*
United Kingdom — *Labour Gazette.*
U.S.A. — Survey of Current Business.

[b] The area of the City of Tokio was expanded from 81.219 sq. km. to 550.248 in October 1932.

In some countries, indeed, notably in the United Kingdom, Australia and Sweden, building activity in 1935 was considerably greater than in 1929.

It is remarkable, however, to note how little direct connection there is between building expansion and rents. The new building that has been in progress is partly dependent upon Government subsidies, but expanding incomes, lower building costs and the cheapness and abundance of credit have been more important factors in the countries of greatest expansion. With low rates of interest, houses can be built at a cost that, when amortised by weekly or monthly payments, is within the range of a greater number of potential purchasers. Nevertheless, the rents of already existing houses and apartments are slow to fall and a great volume of building is apparently compatible with both high and low levels of rental. Thus, in Australia, building increased more than threefold between 1929 and 1934,

Index Numbers of Rents, 1929-1935.[a]

(1929 = 100.)

	1932	1933	1934	1935
Estonia	273	231	215	217
Belgium	178	176	175	175
Austria	156	156	161	172
Czechoslovakia	152	161	168	168
China (Peiping)	116	124	133	135
Poland	130	130	130	128
Latvia	129	121	117	118
France (Paris)	113	115	115	118
Denmark	105	107	108	112
Italy	120	120	111	...
China (Shanghai)	106	107	108	109
India (Ahmedabad)	107	107	107	107
Netherlands	105	105	105	105
United Kingdom	101	102	102	103
Switzerland	104	103	102	101
Sweden	103	102	101	100
Germany	96	96	96	96
Norway	98	97	95	94
India (Bombay)	92	92	92	92
Turkey	100	100	93	80
Australia	77	76	77	80
Canada	92	82	78	79
New Zealand	83	75	74	76
Peru	77	75	72	76
Yugoslavia	97	82	75	74
U.S.A.	81	70	67	67
Bulgaria	85	83	75	66

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[a] *The I.L.O. Year-Book, 1935-36*, Vol. II.

while rents fell 20%. In Czechoslovakia, Canada and the United States rents have fallen greatly, but building lags. In Germany, rents have remained almost stationary, but building, after falling by two-thirds between 1929 and 1932, has again increased. In Switzerland also, rents have changed little, but building has decreased by at least 25%. In Japan, rents have not moved, but building has increased many-fold. In Sweden, building has increased by 50% without rents being greatly affected as yet. Some allowance must be made for the incompatibility of the statistics. Rent statistics are usually collected as part of cost-of-living enquiries and refer to working-class houses in urban areas. The existence of contracts is responsible also for a considerable lag in rents.

It is possible to give other scattered indications of the strong tendency in the last few years for increased consumption of durable goods. The circumstances of different countries naturally vary a great deal. In the United States, for example, the sale of mechanical refrigerators appears to have increased by more than 100 per cent between 1932 and 1935.

The following table [1] shows the increase of sales of domestic electrical appliances at retail in the United States:

(In thousands.)

Year	Vacuum cleaners		Ironing-machines		Domestic refrigerators	
	Value	Unit	Value	Unit	Value	Unit
1932.	$19,601	557	$3,500	50	$155,610	798
1933.	$30,271	739	$3,411	60	$172,720	1,016
1934.	$43,555	968	$6,196	116	$220,848	1,284

Year	Electric washing-machines		Radios	
	Value	Unit	Value	Unit
1932.	$33,620	570	$124,860	2,620
1933.	$59,935	967	$130,899	3,806
1934.	$72,874	1,121	$150,880	4,084
1935.	$78,666	1,209	$237,455	4,250

The provision of air-conditioned carriages to make railway travelling more comfortable has also made rapid strides. Another striking example of increased demand is that for wireless sets. Alike in the countries where deflation has stopped and in those where it is still continuing, in the United States, which is relatively well equipped as well as in the more conservative countries of Europe and in Japan, the sales of radio equipment have increased by leaps and bounds.

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[1] *The Annalist*, New York, March 13th, 1936.

Growth of Registered Listeners in Different Countries. [a]

(000's omitted.)

	1931	1932	1933	1934	1935	1935 Number per 1,000 of total population
U.S.A.	16,679	17,005	18,925	20,750	22,560	177.95
Denmark	476	497	533	568	609	164.41
United Kingdom . . .	4,331	5,263	5,974	6,781	7,403	160.77
Sweden	550	609	666	733	834	133.83
New Zealand	72	89	113	148	184	117.67
Australia.	338	419	519	682	771	114.35
Netherlands	524	560	648	909	947	113.36
Germany.	3,981	4,308	5,053	6,143	7,193	107.61
Switzerland	150	231	300	357	418	102.91
Belgium	201	340	466	604	746	92.24
Canada	522	685	.	813	860	82.88
Austria	469	493	307	527	560	82.86
Union of South Africa .	40	51	67	99	130	75.14
Norway	102	123	138	157	191	66.68
Argentine	310	450	450	500	800	65.57
France.	.	.	1,368	1,756	2,628	62.61
Czechoslovakia	384	472	573	694	848	57.52
Hungary	325	322	328	340	352	40.28
Japan	971	1,348	1,681	1,952	2,372	24.37
U.R.S.S.	.	2,385	.	2,323	2,800	16.67
Poland	310	269	311	374	491	14.65
Italy	233	305	365	430	530	12.20

[a] Statistics furnished by the International Broadcasting Office, Geneva.

In the case of certain countries, there are special factors which have affected the figures given: the big growth shown in France in 1934 and 1935 is largely due to increased efficiency of registration and it is probable that the numbers are still under-stated; the large increase shown for Germany is officially attributed to the introduction of a cheap receiving set specially made for the reception of local stations.[1] In many countries, the statistics are probably subject to a rather wide margin of error. But there is no doubt as to the general tendency towards a rapid increase in the number of listeners practically all over the world.

The increased use of motor-cars is also remarkable. For a time, during the years of depression, the registration of new cars decreased in many countries, but the consumption of petrol was generally maintained or increased despite the fact that several Governments have found petrol a convenient and elastic source of revenue. It is evident that these facts represent a delayed rather than a diminished demand. Thus, between

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[1] See: E. HADEMOVSKY: "Deutsche Rundfunkwirtschaft und Hörerentwicklung" in the review *Radiodiffusion*, April 1936.

1929 and 1932 in the United States, the registration of new cars dropped by over 70%, but petrol consumption fell only by 1%. In the United Kingdom, the new cars registered were 15% fewer in 1932 than in 1929, but petrol consumption increased by over 20%. It must be stated that there has been a steady increase of petrol consumption for other than passenger cars. The use of motor-buses, commercial lorries and aeroplanes is increasing rapidly; but, since the sales of commercial vehicles followed much the same course as that of private cars, there is no reasonable doubt that the private consumption of petrol must have been well sustained during the depression and more than sustained since 1932. The rise in the price of petrol, though due partly no doubt to successful control policies, is further evidence of a rising market.

Consumption of Petrol.

(1929 = 100.)

	1932	1933	1934	1935
Denmark	127	132	142	152
United Kingdom . .	121	126	136	148
Switzerland	120	124	140	132
United States . . .	99	101	108	114
Germany.	102	94	109	..
France.	99	104	104	100

There is, of course, a remarkable disparity in the number of cars registered in the different countries. The United States has an enormous lead over any other country in the number of cars actually on the road; but it is significant of the severity of depression in the United States that, even in 1935, the number of new cars registered, while more than double the number in 1932, was still little more than two-thirds of the 1929 figure. In the United Kingdom, on the other hand, the numbers in 1935 were almost 60% above those of 1929. Among the other countries represented in the table which follows, there is some considerable variation of movement. The varying length and severity of deflationary policies, discriminatory taxation both of cars and of petrol, the imposition of quota restrictions or increased tariff charges have affected the situation. Thus, in France, the registrations of new cars have been virtually halved since 1929, and in Switzerland they fell sharply in 1935, while in Austria and Germany, presumably because of lowered taxation, they increased considerably. Again, there has been a spectacular increase in South Africa, while in Australia recovery since 1932 has not restored the level of 1929.

Registration of Passenger Motor-cars, 1929-1935.[a]

(000's omitted.)

Country	1929	1932	1933	1934	1935[b]
Argentine	296	236	199	163	220
Australia	461	415	430	453	474
Austria	20	18	17	18	...
Belgium	90	116	119	98	106
Denmark.	71	83	84	89	91
France	885	1,341	1,397	1,410	1,713
Germany	458	460	515	755	840
Japan	53	57	46	53	58
New Zealand	144	151	129	136	149
Poland.	25	17	26	20	...
Sweden	104	102	99	102	106
Switzerland	57	74	75	68	71[c]
United Kingdom . . .	1,049	1,367	1,277	1,409	1,491
U.S.A.	29,036	20,805	20,514	21,430	22,590

[a] *Source.* — "Automobile Facts and Figures", 1930, 1933, 1934, 1935. (Automobile Manufacturers' Association, New York.)

[b] *Bulletin commercial de Belgique,* June 1st, 1936.

[c] *Revue automobile,* January 25th, 1936.

All in all, there has been a very strong tendency for the consumption of durable goods to increase in the years since 1932. That tendency has not been shared by the countries where deflation is still in progress. It has been interfered with here and there by such factors as taxation upon what are perhaps deemed to be luxury commodities. In the main, it has appeared to depend primarily upon the recovery of national income. It is most marked, for example, in the United Kingdom and the countries of the sterling area. Up to the present time, as is shown elsewhere in this *Survey*, it has not led to a comparable increase either of new capital investment or of re-employment. In certain respects, notably in the encouragement given to the building industry, continued policies of cheap money have encouraged the trend; but the centre of the development, for example in the United Kingdom, appears to have been the accumulation of income as confidence was restored and production increased, while investment outlets continued to be restricted. This diversion of purchasing power is a remarkable phenomenon which cannot yet be rightly appraised. In itself the increased consumption of durable goods is a resumption of a natural trend that has been growing in importance. As wealth increases the more elementary needs of humanity are more easily met and greater resources are available for the satisfaction of new demands. It is, also, a typical phase of normal cyclical recovery when consumption increases and later calls forth new investment. The distinctive character of the present situation is that Government action has been so widely and deeply involved in its promotion. Both by placing obstacles in the way of certain forms of investment, particularly foreign, and by more positive action in facilitating the provision of cheap and abundant credit, Governments have intervened to a greater extent than in any previous crisis of modern times. The accumulation and continued cheapness of credit finds various outlets. The increased consumption of durable goods is one outlet, speculative activities — for example, on the Stock Exchange — are another. The continuance of such easy credit and its control so that ultimately the proper balance is restored between investment and consumption without creating unsound boom conditions raise problems of great complexity.

Chapter V.

RECOVERY AND THE WAGE-EARNER.

THE DECLINE IN UNEMPLOYMENT.

The long depression which became practically universal after November 1929 was marked, not only by an amount of unemployment greater than that recorded in any previous depression for which statistics are available, but by an increasing consciousness of the problem and concern for its social consequences. The actual peaks of unemployment that were registered were very high. The percentage of workers recorded as unemployed naturally varied from country to country in accordance with the state of depression and the effectiveness of registration, but, in practically every country, the peaks were higher than previous records. In the United Kingdom, for example, the percentage unemployed among insured workers rose to 23.0% in August 1932 as compared with a maximum for the immediate post-war depression of 17.7 % in January 1922. Before the war, the maximum percentage recorded (based on returns from certain trade unions) was 10.2% in 1886.[1] While the later figures are not strictly comparable with those for earlier periods, there is little doubt that the mass of unemployment was greater during the recent depression. Moreover, it has been more worldwide and has persisted over a longer period, so that the problem has been forced upon public attention to a greater degree. Certain of its aspects, notably the concentration of unemployment in certain areas and its distressing prevalence among young people, have aroused the social conscience and promoted public and private intervention in ways likely to have lasting effects on the organisation of the labour market.

It is probable that, in most countries, the measurement of unemployment has become more effective in recent years. The various forms of insurance and relief that are now provided afford facilities and inducements for registration that formerly did not exist. Moreover, as the depression lengthened and the resources of unemployed workers diminished, many groups, such as those formerly employed in the professions or clerical occupations, and in agriculture, were forced to seek assistance.

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[1] **Abstract of Labour Statistics, 1934.**

It still remains true, however, that the statistics available "fall far short of the reality".[1] The figures generally quoted are often confined to the wholly unemployed and do not include the whole of the labouring population. They are most complete in the manufacturing, building, mining and transport industries, where trade-union organisation is most effective. While it is true that these industries suffer greater fluctuations than most others, there is a great volume of unemployment among women, in agriculture, among clerical workers and unorganised labour which is difficult to measure except, perhaps, as it throws greater burdens upon private and public relief funds. Partial unemployment is recorded in some countries, but the figures are "uncertain, incomplete, and based on different definitions".[1] Short time and various labour-spreading devices must obviously be considered in any attempt to estimate the total volume of unemployment. The only adequate measure of the problem in any country would be a compilation covering the whole range of economic activity of the man-hours lost by involuntary unemployment, but such estimates are not available.

The statistics recorded below must be used, therefore, as indications of a trend rather than as absolute measurements of the total volume of unemployment. Even for this purpose they require careful handling. International comparisons are invalidated by different methods of compilation as well as by the varying degree to which the statistics cover the problem in individual countries as compared with another. The statistics for each country are usually more comparable from year to year, but account must be taken of changes in legislation and in administration. In certain cases, for example, prolonged unemployment may exhaust the worker's right to benefit and he may cease to be registered as unemployed and become instead a recipient of relief. In some countries, workers employed on relief works are still counted as unemployed, in others not. Changes in social organisation may also have a considerable influence upon the unemployment figures: thus the introduction of conscription in Germany has taken some hundreds of thousands of young men off the labour market, and the replacement of women by men, the elimination of "non-Aryans" and other social changes, have also reduced the unemployment figures. It is necessary, therefore, to consider not only unemployment but also employment statistics.

While these precautionary statements are necessary, it happily remains true that, in 1935, there was a considerable reduction of unemployment in the world as a whole and in most countries. This development, as will be shown later, is connected with the rising levels of production.

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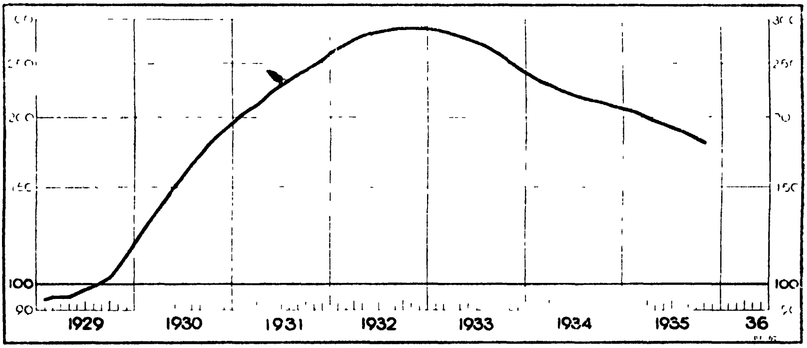
[1] *Cf.* the explanations and qualifications given, *e.g.*, in the *International Labour Review*, April 1936, and the fuller references there cited, especially "Methods of Statistics of Unemployment", Studies and Reports, Series N, No. 7, International Labour Office, Geneva, 1925.

The international index of unemployment compiled by the International Labour Office combines the national statistics of sixteen important countries in a weighted average. It does not pretend to show "the absolute height at a given date or the magnitude of the fluctuations of unemployment", but only "the relative fluctuations in the general level of unemployment among industrial workers". Since it is a weighted average of national statistics, it is, however, "less influenced by chance circumstances than the individual indices of which it is composed", the errors tending, on the average, to balance each other. The diagram reproduced below shows the movements of the index after adjustments for seasonal variation.



International Index of Unemployment, 1929-1935. [a]
(Base: 1929 = 100, logarithmic scale.)

[a] *International Labour Review*, April 1936, pages 558-9.

It will be noted that, while the decline of unemployment has been continuous during the three years 1933-1935, the rate of decline was somewhat less in 1935 than in 1934 (13% as against 19%) and the average level in 1935 remained about 90% higher than in 1929. The improvement, however, continued throughout the year and the unadjusted index for December 1935 was 42% above that for December 1929. Apart from seasonal changes, there has been no interruption of the decline during the last three years.

There is no similar international index of employment. The movement of the returns, though not the absolute amount of employment, is shown in the following table for a certain number of countries :

Index Numbers of Employment, 1929-1936.[a]

(Base: 1929 = 100.)

Country	Kind of statistics	Yearly average				March	
		1932	1933	1934	1935	1935	1936
Un. of South Africa	Employers' returns	87	91	102	114	112	124
Austria	Sickness insurance	76	71	70	67	67	63
Belgium	Voluntary unemployment insurance	78	81	78	80	74	83
Bulgaria	Employers' returns	101	85	89	91	74	92
Canada	„	73	71	81	84	78	82
Czechoslovakia . .	Social insurance	83	75	75	77	67	74
Denmark[b]	Employers' returns	92	102	114	119	112	121[c]
Estonia	„	83	84	98	110	106	123
Finland	„	81	89	100	106	103	103
France[d]	Returns of Labour Inspectors	81	79	77	74	72	73
Germany.	Sickness insurance	71	74	85	91	87	61
Hungary	Social insurance	82	81	87	91	87	93
Italy	Employers' returns	71	71	72	...	83	...
Japan	„	82	90	100	110	107	113
Latvia	Sickness insurance	83	88	96	101	98	103
Netherlands . . .	Unemployment insurance	79	78	77	73	72	70
Poland	Employers' returns	63	63	68	71	68	71
Sweden[e]	Social Board	.	89	97	103	99	105
Switzerland . . .	Employer's returns	76	73	73	70	71	69
United Kingdom .	Unemployment insurance	92	95	99	102	100	104
U.S.A..	Employers' returns	61	66	75	78	79	80
Yugoslavia	Social insurance	89	86	90	93	87	95

[a] *International Labour Review, passim.*

[b] Base, 1931 = 100.

[c] In Denmark, for March the index number is 55, a figure affected by industrial dispute. The figure 121 refers to April 1936.

[d] Base: corresponding month of 1930.

[e] Base: 1926-1930 = 100.

The general tendency for employment to increase is clear, only four countries — Austria, France, the Netherlands and Switzerland — showing decreases from 1934 to 1935. Of these, the Austrian figures do not present an accurate picture of the situation, since they are calculated from incomplete sickness insurance returns: the unemployment statistics show improvement in Austria. In the three gold-standard countries, on the other hand, the employment figures have fallen and those of unemployment have increased. There is no precise relation, however, between the two sets of figures. The numbers unemployed, for example, are greater in Bulgaria, Poland and Yugoslavia, despite increased employment. Many factors must be borne in mind besides the possibility of improved registration or administrative changes. Natural increase in the population, migration or shifts from urban to rural occupations may cause discrepancies between the two sets of figures. Nevertheless, there is a broad agreement as to trend. In all but a very few countries, unemployment is declining and employment increasing. The following table summarises the unemployment statistics that are available:

National Unemployment Statistics at the End of March in the Years 1929 and 1932-1936.[a]

I. Compulsory unemployment insurance statistics.
II. Voluntary unemployment insurance statistics.
IV. Trade-union returns.
V. Employment-exchange statistics.
VI. Official estimates.

Country	Kind of statistics	1929	1932	1933	1934	1935	1936
				(000's omitted.)			
Australia	IV	39	120	109	92[b]	81[b]	60
Austria	V	225	417	456	403	400	392
Belgium	II	6	158	196	183	207	139
Bulgaria	VI	.	31	28	41	45	51
Canada	V	12	77	80	89	92	93
Chile	V	.	75	75	39	13	7
Czechoslovakia .	V	50	634	878	790	805	798
Danzig	V	18	37	38	22	19	18
Denmark	V	58	148	166	114	102	126
Estonia	V	4	8	15	6	3	2
Finland.	V	3	18	19	14	10	7
France	V	9	347	357	379	527	509
Germany	V	2,484	6,034	5,599	2,798[c]	2,402	1,937
Hungary	V	17	71	69	61	58	58
Irish Free State .	V	26	31	83	101	138	123
Italy[d]		293	1,053	1,082	1,057	853	...
Japan	VI	.	474	424	381	360	357[b]
Latvia	V	9	23	13	11	8	7
Netherlands . .	II	52	166	185	170	179	181
New Zealand . .	V	5	45	51	44	44	32[e]
Norway	V	24	38	42	41	42	40
Poland	V	171	360	280	388	506	475
Roumania . . .	V	58	55	44	27	19	19
Spain	V	.	.	.	417	437	457[f]
Sweden	V	44	99	122	110	99	91
Switzerland[g] . .	I, II	2	9	12	11	13	16
United Kingdom.	I	1,004	2,233	2,310	1,908	1,819	1,639
U.S.A.[g]	IV	.	23	26	21	19	16
Yugoslavia . . .	V	12	24	23	21	27	31

[a] I.L.O.: *International Labour Review*; and League of Nations: *Monthly Bulletin of Statistics*. [b] February. [c] Since March 1935 including Saar. [d] Ministry of Corporations. [e] Modified series. [f] January. [g] In percentage of workers.

In the course of the depression, so much attention has been concentrated upon the problem of unemployment that the success of recovery measures is often judged by their effect in reducing the numbers of unemployed. While this is not the only test of effective recovery, and in certain circumstances may not in the long run be the best test, it is of some interest to tabulate the progress achieved in the past three years. In the following table, the reduction of unemployment is shown for a number of countries, subject always to the qualifications briefly set forth above concerning the limitations of the available statistics. The date chosen for comparison, the end of the calendar year, is a period of heavy seasonal unemployment in the northern hemisphere and less unemployment in the southern.

The most outstanding failures to reduce unemployment, except in Bulgaria, where the statistics refer to small numbers, are those of the gold-standard countries — apparently in the order of severity of their deflationary policies. The effect of expansionist policies, of debt default, currency depreciation and public expenditure of borrowed money, is equally evident, together with general recovery over a wide area. To explain adequately the various combinations of reasons, statistical and real, that lie behind the figures in the case of each particular country is, however, beyond the scope of this *Survey*.

Reduction of Unemployment, December 1932 - December 1935

I. Compulsory unemployment insurance statistics.
II. Voluntary unemployment insurance statistics.
IV. Trade-union returns.
V. Employment-exchange statistics.
VI. Official estimates.

Country	Kind of statistics	Dec. 1932	Dec. 1935	Percentage increase (+) or decrease (—)
		(000's omitted.)		
Australia	IV	115	60[a]	— 48
Austria	V	450	384	— 15
Belgium	II	427	264	— 38
Bulgaria	VI	23	51	+123
Canada	V	76	85	+ 12
Chile	V	123	8	— 93
Czechoslovakia	V	746	794	+ 6
Danzig	V	39	21	— 46
Denmark	V	173	140	— 19
Estonia	V	14	2	— 85
Finland	V	20	7	— 64
France	V	307	481	+ 57
Germany	V	5,773	2,508	— 57
Hungary	V	75	52	— 30
Irish Free State	V	103	133	+ 30
Japan	VI	463	360	— 22
Latvia	V	17	8	— 53
Netherlands	V	351	472	+ 35
New Zealand	V	53	36[b]	— 32
Norway	V	42	41	— 2
Poland	V	220	403	+ 83
Roumania	V	38	17	— 55
Spain	V	.	674	.
Sweden	IV	129	114	— 12
Switzerland	V	82	119	+ 45
United Kingdom	I	2,776	1,858	— 33
U.S.A.	V	.	8,954	.
Yugoslavia	V	14	19	+ 32

[a] November [b] Modified series.

The magnitude of the unemployment that still remains in many countries is a striking fact. In the spring of 1932, the Director of the International Labour Office estimated the number of workers totally unemployed in those countries for which information was available as 20-25 millions. This figure, which is probably a low estimate, rose at the end of 1932 to 25-30 millions. At the end of 1935, it had sunk to 18-20 millions, but was still perhaps double the pre-depression average. It is not surprising, therefore, that plans for unemployment insurance were being extended and public works programmes continuing in a great many countries.

Space does not permit anything more than brief reference to some of the national programmes of public works now in course of execution. It is extremely difficult to estimate the extent to which they provide employment. It is possible, of course, to state the numbers actually at work on the projects in course of execution ; but there is much controversy concerning the effects of public-works expenditure. Demands for materials and tools are clearly increased and secondary employment is thereby stimulated. The expenditure of wages received, in so far as they exceed relief that would have been provided in other ways, maintains demand for consumption goods. In most, though not all, countries where large public-works programmes are in operation, credit is so abundant and interest rates so low that it is unlikely that Government borrowing has diverted resources that might otherwise have gone into private enterprise. There may, however, be some disturbance of private enterprise resulting from apprehensions as to the future effects of continued Government borrowing.

Apart from Sweden, where the public-works programme was being tapered off and loans were to be repaid during the financial year 1936/37, perhaps the outstanding examples of such expenditure in 1935/36 were the United States and Germany. A large programme was outlined for the United States by the National Resources Board in its report to the President dated December 17th, 1935.[1] In April 1935, the Emergency Relief Appropriation Act placed at the President's disposal an appropriation, to be raised by loans, amounting to $4,000 million, in addition to a sum of $880 million of unexpended departmental balances. In the spring of 1936, the President asked Congress for a further appropriation of $1,500 million. These amounts were to be spent, in collaboration with State and municipal authorities, on such undertakings as highway construction, the elimination of level-crossings, rural rehabilitation and relief, rural electrification, flood control, housing, etc.

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[1] *Industrial and Labour Information*, March 18th, 1935.

Such a large programme naturally took time to organise, but, by the end of December 1935, the Works Progress Administration reported that it had achieved its aim of putting 3,500,000 men and women to work.

It is more difficult to get precise information concerning either the financial or the employment aspects of the German programme. Funds have been raised largely by issuing renewable short-term bills to very considerable amounts. In addition to rearmament expenditure, which has provided a great deal of employment, a vast programme of housing, road construction and other public works has been launched. Since private enterprise, except as financed by public expenditure, has remained at a low ebb and the consumption goods industries actually declined in 1935, it seems clear that the greater part of the decline in German unemployment must be attributed to the Government programme.

These were by no means the only countries in which extraordinary expenditures on public works financed by Government borrowing were used in 1935 to give employment. In the United Kingdom, such expenditure has on the whole been small; but, in the summer of 1935, the Chancellor of the Exchequer announced a scheme of railway electrification and construction to cost £35,000,000 in five years. This was supplemented in November by a further scheme to cost £30,000,000 in five years. A five-year road scheme to cost £100,000,000 was also launched, and there has been a steady continuance of housing subsidies. Special steps have been taken also to assist the depressed areas.[1]

The prolonged pressure of deflation in countries which had maintained their former currency parities was partly mitigated by public works expenditure. After devaluation, Belgium greatly extended its programme of public-works construction. In addition to the public works covered by the ordinary budget, an extraordinary budget provides for the expenditure of 5,600 million francs in the three years 1936-1938, of which 2,303 millions are to be spent in 1936, almost wholly on public works.[2]

Poland expanded its employment programme in 1935 so as to provide work for about 200,000 unemployed at a cost of 420 million zloty. The French Government expedited the execution of its public-works programme. Decrees were issued in August 1935 providing for the allotment of 900 million francs for works to be begun as soon as possible and providing means whereby local authorities may borrow up to 1,000 million francs to supplement the expenditure of balances accruing as a result of economies in other directions. The Netherlands Government, in October 1935, established a limited liability company with power to borrow for public works and industrial development.

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[1] Parliamentary Debates, House of Commons, June 5th, 21st and 24th, 1935, and *The Times*, November 4th and 5th, 1935.

[2] *Cf. The I.L.O. Year-book, 1935/36*, for a summary of public-works policy in various countries.

At the same time as these and many other national schemes were in operation, steps were taken to strengthen unemployment insurance in a great number of countries and to introduce it in others where no such provision existed. It is significant that the Unemployment Insurance Statutory Committee in the United Kingdom estimated that, after a decrease of unemployment in the immediate future, there would again be substantial increase. In considering the state of the funds available, it estimated an average unemployment rate between 1936 and 1944 of about 16.75%. [1] In December 1935, the Government introduced a measure extending the principle of insurance to agricultural workers, estimated to number about 750,000, including 50,000 women. [2] In Belgium, Czechoslovakia, Denmark, France, Sweden, and many other countries, the existing unemployment-insurance schemes were extended. Though, as in Austria and Germany, the provisions of existing schemes were tightened in certain cases, there was nowhere any abandonment of the general principle. [3] On the contrary, several countries where such provision against the risk of unemployment has hitherto been lacking have introduced the principle. The most striking advance in this respect was the passing of the Social Security Act in the United States, signed by the President on August 14th, 1935. [4] This measure provides for unemployment-insurance schemes to be created by the State legislatures with Federal subsidies and is now being implemented by action on the part of those legislatures. On June 28th, 1935, the Canadian Social Security Act, providing for unemployment insurance on a contributory basis, came into force. Somewhat similar measures have been introduced in many South-American countries. [5]

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[1] On this basis, it recommended a reduction of workers' and employers' contributions of one penny per week, Government contributions being reduced proportionately. *Cf. The Times*, February 28th, 1936, and Parliamentary Debates, House of Commons, February 27th, 1936.

[2] It is estimated that the rate of unemployment will be 7½%. The increased charge to the Exchequer is estimated at about £600,000 a year. The normal rate of contribution proposed is 4½*d.* a week each from employer, employee and the National Exchequer.

[3] *Cf. The I.L.O. Year-book, 1935/36.*

[4] *Cf.* Paul H. DOUGLAS: "The United States Social Security Act", *Economic Journal*, March 1936.

Under the Act, every employer of eight or more persons will pay an annual tax amounting to a percentage of the total wages paid to persons covered by the Act. An Unemployment Trust Fund is to be established in the Treasury of the United States and all money received in the State Unemployment Fund is immediately paid over to the Unemployment Trust Fund, which has to invest the money in obligations of the United States or guaranteed by the United States. Agricultural labour and domestic servants in private homes are excluded from the scope of the Act.

[5] See, for Canada, *The Labour Gazette*, Ottawa, February and June 1935. For the development in other countries, see *The I.L.O. Year-book, 1935/36.*

The years 1934 and 1935, indeed, witnessed a general re-assertion of the principle of social insurance. At the depth of the depression, there had been a certain amount of hesitation regarding the maintenance of existing schemes in their entirety, but with recovery the movement seems to have received a new impetus. Perhaps the most striking advances in respect of unemployment, accident, health and maternity insurance, workmen's compensation, invalidity, old-age, widows' and orphans' pensions and similar provisions against industrial and social risks, have been made in the United States and in South America. The movement, however, is worldwide. At the beginning of 1936, it was estimated by the International Labour Office that there were 130 compulsory accident-insurance or workmen's-compensation schemes in fifty-four countries, forty-five compulsory sickness and maternity insurance schemes in thirty-one countries, and seventy-five compulsory invalidity, old-age, widows' and orphans' insurance schemes in thirty countries. The number of workers covered is rising rapidly. For example, it is estimated that, when the United States Social Security Act comes into force, the number of workers covered by compulsory invalidity, old-age, widows' and orphans' insurance will rise from 100 to 125 millions. It is obviously impossible here to do more than mention the rapid development of this movement towards social insurance. Fuller information is available in the various publications of the International Labour Office. [1]

WAGE RATES AND EARNINGS.

The gains in employment described in the preceding section represent a substantial share of recovery accruing to wage-earners as a group. There is a clear distinction to be drawn between earnings and wage rates. The total income earned in the course of a year and the purchasing power of that income matter more to a working-class family than the actual level of wage rates. While the standard wage rates paid are important as one of the basic factors determining total earnings and also as symbols to which organised labour rightly attaches great importance, account must also be taken of the cost of living, regularity of employment, opportunity for supplementary earnings, the degree of short-time or overtime, and the extent to which members of the family are able to contribute to the joint income.

Wherever there has been an increase of economic activity and therefore of employment — and this means in all but a very few countries — the total amounts paid out as wages have increased considerably. There is a general tendency for money rates of wages to increase, though the increases have not as a general rule been very great. The cost of living has not risen very much in 1935, but the rise has been great enough in many countries to more than counteract the increases in money wage rates, so that the rates of real wages in many countries show a slight falling tendency. For the reasons given above, this is quite consistent with increased real as well as money earnings. Thus, in the United States in 1935, money rates of wages rose by 3%, but real wages as measured by hourly rates fell by 2%, while weekly real earnings rose by 5% mainly because of greater regularity of employment. Thus, even for the workers who had not suffered unemployment during the depression, increased economic activity has brought a substantial increase of real income. The fact that larger numbers are now employed naturally increases the total wage earnings of the community as a whole.

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[1] *Cf.* especially "The International Labour Organisation and Social Insurance", Studies and Reports, Series M, No. 12, International Labour Office, Geneva, 1936.

The table which follows gives index numbers of real and money wages for a number of countries. Since these index numbers, except in the case of the United States, represent wage rates of earnings by the hour or the day, they do not show the gains that have come to wage-earners in most countries from greater and more regular employment. The nominal rates show a rising and the real rates a falling tendency, except in a few countries where recovery is proceeding very rapidly, as in South Africa and Canada, or where, as in France, a sharp fall in the cost of living has increased the real wages of those workers not affected by unemployment or short-time.

Index Numbers of Money and Real Wages of Industrial Worker in Various Countries.[a]

(Base: 1929 = 100.)

Country	Nature of data	Money Wages				Real Wages			
		1932	1933	1931	1935	1932	1933	1934	1935
Union of South Africa .	Weekly rates	93	94	94	98	104	108	106	111
Australia	Hourly rates	84	81	82	83	104	104	103	102
Belgium	Hourly earnings	92	90	86	82	111	109	108	103
Canada	Hourly rates	94	90	89	91	115	115	112	114
Czechoslovakia (Prague).	Hourly minimum rates	103	102	100	99	112	113	112	109
Denmark	Hourly earnings	102	102	103	104	114	110	107	105
France (Paris)	Hourly rates	104	104	104	102	110	111	112	117
Germany	Hourly rates	82	79	79	79	104	104	101	99
Hungary	Daily earnings	84	78	73	...	(100)	(101)	(96)	...
Italy	Hourly earnings	86	84	82	82[b]	104	106	109	108[b]
Japan	Daily earnings	85	86	88	88	(112)	(107)	(107)	(105)
Netherlands	Hourly earnings	93	89	87	84	(111)	(107)	(105)	(104)
New Zealand	Weekly minimum rates	86	82	83	85	102	104	103	102
Norway	Daily earnings	98	96	97	97	109	109	108	106
Poland	Hourly earnings	85	78	74	72	(111)	(112)	(112)	(114)
Sweden	Hourly earnings	102	98	98	100	110	108	108	108
Switzerland	Hourly earnings	98	97	94	92	114	119	117	116
United Kingdom	Weekly rates	96	95	96	97	110	112	111	111
U.S.A.	Hourly earnings[c]	84	83	99	102	108	111	124	122
	Weekly earnings[c]	60	62	71	78	77	83	89	94
	Weekly earnings[d]	69	68	75	82	88	88	95	101

[a] International Labour Office: *Year-book of Labour Statistics, 1935/36.*

[b] Averages for the months January to August 1935.

[c] National Industrial Conference Board Series. [d] Bureau of Labor Statistics Series.

One interesting feature of the rise that has taken place in money wage rates is the widespread evidence of substantial increases in agricultural wages. In the gold-standard countries, agricultural wages are still declining, but in Australia, Canada and the United States, as well as in several European agricultural countries, they are rising once more as farming conditions improve.

Index Numbers of Wages of Male Agricultural Workers.[a]

(Base: 1929 = 100.)[b]

Country	Category of workers	Nature of data	Index numbers of money wages 1932	1933	1934	1935
Australia	All, generally with board & lodging	Weekly total wages	80	77	76	77[c]
Canada	Permanent, with board & lodging	Yearly total wages	54	51	54	57
Denmark	Farm servants, with board & lodging	Yearly cash wages	88[d]	88[d]	94[d]	104[d]
	Day labourers without board or lodging	Daily cash wages	91[e]	94[e]	94[e]	100[e]
England & Wales	Ordinary, generally with board & lodging	Weekly total minimum wages	98[f]	97[f]	98[f]	101[f]
Estonia	Permanent, with board & lodging	Yearly cash wages	59	53	61	69
Finland	"Deputatists",[g] no board, with lodging	Yearly total wages	80	77	79	80[*]
	Day labourers, without board or lodging	Daily cash wages	68[e]	67[e]	72[e]	77[c]
France	Farm servants, with board & lodging	Daily total wages	*100*	.	*93*	.
Hungary	Day labourers, no board or lodging	Daily cash wages	63	47	44	44
Irish Free State .	Permanent, without board or lodging	Weekly cash wages	94[h]	89[h]	84[h]	85[h]
Italy	Day labourers, generally no board or lodging	Hourly total wages	75[i]	73[i]	72[i]	72[i]
Japan	Permanent, with board & lodging	Yearly total wages	*74*	*77*	*77*	...
	Day labourers, with board & lodging	Daily total wages	*68*	*69*	*69*	...
Latvia	Farm servants, with board & lodging	Yearly cash wages	63[d]	61[d]	64[d]	66[d]
Lithuania	Permanent, with board & lodging	Yearly total wages	91	68	61	56
	Day labourers, no board or lodging	Daily cash wages	73[h]	59[h]	53	47[h]
New Zealand . .	All, generally with board & lodging	Weekly total wages	70	64	66	68
Norway.	Farm servants, with board & lodging	Yearly cash wages	82[j]	79[j]	79[j]	83[j]
	Day labourers, no board or lodging	Daily cash wages	83[k]	80[k]	81[k]	84[k]
Poland	"Deputatists",[g] no board, with lodging	Yearly total wages	70[l]	67[l]	...	...
Sweden	All, with or without board & lodging	Yearly total wages	92	91	92	...
United States . .	Permanent and day, with or without board & lodging	Monthly cash wages	50	47	53	58

[a] For the sources and methods of compilation of these figures, see *The I.L.O. Year-book, 1934/35*, Vol. II, pages 125 and 200, and the *Year-book of Labour Statistics, 1935/36*, page 77, International Labour Office, Geneva.

[b] Except for index numbers in italics, for which the base is 1930.

[c] Averages based on a part of the year only.

[d] May 1st to April 30th.

[e] Summer figures.

[f] September figures.

[g] "Deputatists", mostly married workers engaged per year who receive a dwelling, some land, and other payments in kind, and are allowed by their employer to keep stock; the total of these rewards in kind is known as the "Deputat".

[h] July figures.

[i] June figures.

[j] Summer-winter period.

[k] Harvest figures.

[l] April 1st to March 31st.

[*] Provisional figures.

From the rather scanty evidence available concerning wage movements in different groups of industries, it seems probable that the rise in agricultural wages during 1935 is typical of a tendency for the more depressed industries to recover rather more than those that have been fairly well sustained during the depression. This tendency, however, is less clearly marked than the contrast between the general rising tendency in all industries which is shown in such countries as Australia, Canada and the United States, and the falling tendency in France and Poland. There is, however, some rise in mining, wood, clothing and textile earnings in Japan, which contrasts with lower earnings in the printing, chemical and food industries. The failure of wages to rise in Germany is noteworthy in view of the great increase in production in that country.

In order to measure the extent to which the wage-earners have shared in the recovery of the last three years, it is necessary to consider the share of national income paid out as wages. The statistics available are not entirely satisfactory, but they seem to suggest that, where wage rates were relatively flexible, the proportion of national income devoted to wages sank during the depression and has not yet recovered much of the fall. Perhaps the clearest case is that of Germany. The estimates of national income and wages and salaries in that country were estimated as follows:

Year	Wages and salaries RM. (millions)	National income RM. (millions)	Percentage of national income paid as wages and salaries
1929	44.5	75.9	58.6
1930	41.0	70.2	58.4
1931	33.6	57.5	58.4
1932	26.0	45.3	57.4
1933	26.3	46.5	56.6
1934	29.8	52.5	56.8
1935	31.8	56.0	56.8

On the other hand, where wage-rates were sustained as in the United Kingdom, the proportion (of a smaller national income) probably rose somewhat during the depression and in the last three years has tended to decline.

Wages (W) and Wages and Salaries (W.S.) as Percentages of the Net Value of Industrial Production[a]

Country	Category	1929 (1929/30)	1932 (1932/33)	1933 (1933/34)	1934 (1934/35)
Australia	W.S.	54.2	49.9	49.9	...
Canada	W.	31.3	29.2	28.0	30.4
	W.S.	40.7	43.2	41.6	43.3
Finland	W.	36.7	30.6	29.1	29.5
Hungary	W.S.	36.0	34.8	...	...
Latvia	W.	40.8	40.7	40.5	36.5
New Zealand . .	W.S.	50.4	47.2	48.6	48.6
Norway	W.	38.2	37.1	37.1	38.5
	W.S.	47.5	47.9	47.2	48.6

[a] *Sources:*

Australia — *Quarterly Summary of Australian Statistics.*
Canada — Advance Report on the Manufacturing Industries.
Finland — *Teallisnustilastoa, Industristatistik.*
Hungary — *Revue hongroise de Statistique.*
Latvia — *Annuaire statistique.*
New Zealand — *Monthly Abstract of Statistics.*
Norway — *Norges Industri.*

Wage Changes by Industrial Groups.

AVERAGE HOURLY WAGE RATES (MALES).

		Australia[a]	Canada	France	Germany	United Kingdom[b]
		%	%	%	%	%
Mining	1929-34	– 12	– 4	.	– 21	.
	I-XII 1935	+ 1	+ 2	.	0	.
Metals	1929-34	– 20	– 9	+ 3	– 18	0
	I-XII 1935	+ 3	+ 1	– 1	0	+ 3
Building	1929-34	– 27	– 22	0	– 35	– 10
	I-XII 1935	+ 2	+ 3	– 3	0	+ 3
Wood	1929-34	– 19	– 22	.	– 31	– 7
	I-XII 1935	+ 2	+ 5	.	0	+ 2
Railways	1929-34	– 13	– 9	.	– 19	– 6
	I-XII 1935	+ 2	+ 1	.	+ 0.5	0
Chemicals . . .	1929-34	.	.	.	– 19	.
	I-XII 1935	.	.	.	0	.
Printing	1929-34	– 15	– 9	+ 4.5	– 18	0
	I-XII 1935	+ 1	+ 0.5	– 3	0	0
Textiles	1929-34	.	.	– 7	– 23	.
	I-XII 1935	.	.	0	0	.
Clothing	1929-34	– 22	.	+ 3	– 23	.
	I-XII 1935	+ 1	.	0	0.5	.
Food	1929-34	– 18	.	+ 1.5	– 17	– 4
	I-XII 1935	+ 2	.	—	0	+ 1

AVERAGE HOURLY EARNINGS (MALES AND FEMALES).

		Belgium	Italy[c]	Japan[d]	Poland[e]	United States[f]
		%	%	%	%	%
Mining	1929-34	– 23	– 26	– 10	+ 3	.
	I-XII 1935	+ 3	+ 2	+ 3	– 9	.
Metals	1929-34	– 20	– 16	+ 2	+ 6	– 4
	I-XII 1935	+ 3	+ 1	0	– 3	+ 2
Building	1929-34	– 22	– 17	.	– 8	.
	I-XII 1935	+ 2	– 2	.	+ 1	.
Wood	1929-34	.	– 22	– 20	– 10	– 22
	I-XII 1935	.	– 1	+ 3	– 3	+ 3
Railways	1929-34	+ 1	.	.	.	.
	I-XII 1935	+ 1	.	.	.	.
Chemicals . . .	1929-34	– 18	– 7	– 11	– 4	+ 2
	I-XII 1935	0	+ 2	– 4	– 5	+ 1
Printing	1929-34	– 4	+ 2	– 3	– 17	+ 1
	I-XII 1935	+ 2	– 1	– 2	– 2	+ 3
Textiles	1929-34	– 20	– 19	– 16	– 5	+ 2
	I-XII 1935	+ 6	+ 1	+ 2	+ 1	– 1
Clothing	1929-34	– 20	– 19	– 14	– 20	– 14
	I-XII 1935	+ 1	– 2	+ 3	0	– 2
Food	1929-34	– 6	– 14	– 4	– 24	+ 9
	I-XII 1935	0	– 2	– 1	– 1	+ 2

[a] For 1929 to 1934 the figures are given for June, the percentage change for 1935 is taken from December 31st, 1934, to December 31st, 1935.

[b] Weekly wage rates.

[c] June figures.

[d] Daily earnings, men only.

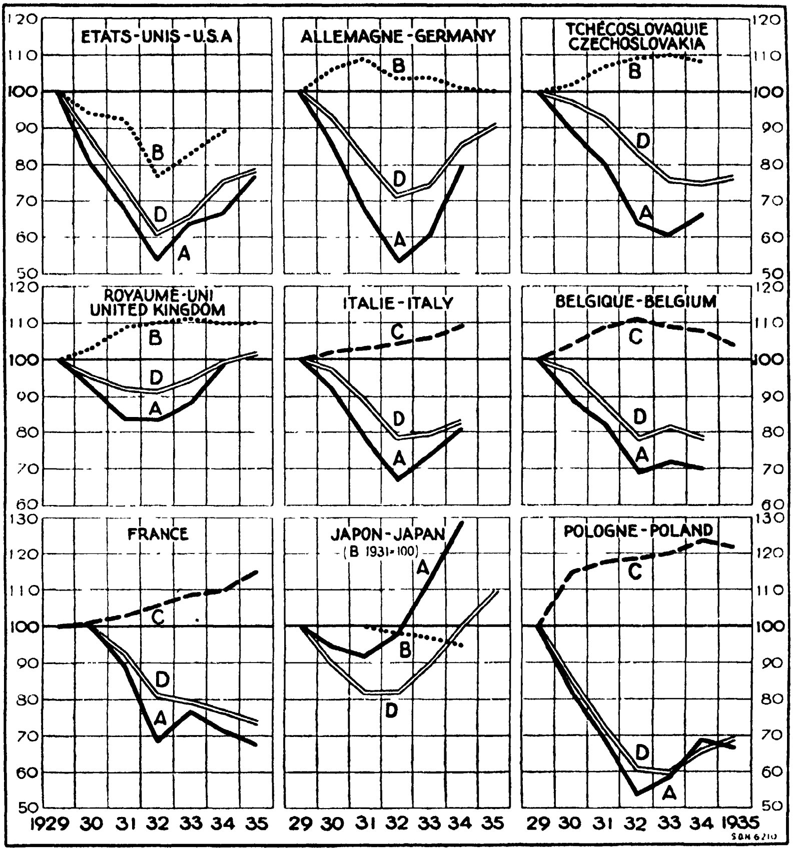
[e] 1932 instead of 1929, August figures. men only.

[f] Percentage change for 1935 taken from December 1934 to December 1935, male workers only.

Movement of Industrial Production Wage Rates and Employment.

(Base: 1929 = 100.)

A Production.
B Real weekly earnings.
C Real hourly earnings.
D Employment.



The close correlation between changes in production and employment is sufficiently demonstrated by the diagrams above. Movements of real wages are greatly influenced by the strength of trade-union organisation. Only in Japan and the United States among the countries considered was there a marked flexibility of industrial wage rates as production fell in the depression period.

WAGE POLICY AND INDUSTRIAL CONFLICT.

As recovery developed and productivity increased, the movement towards higher money rates of wages was reinforced by a widespread tendency towards the enactment of minimum standards of wages and working-hours. The strength of popular support for this movement may be gauged by the number of instances where machinery has been created to formulate and supervise such standards or where collective agreements have been made mandatory by legislation or decree. It is noteworthy that legislation of this type has been introduced into many countries in Asia, South America and Europe, where industrial development is proceeding rapidly and labour standards have hitherto been unregulated and low. Among the countries noted in the annual survey made by the International Labour Office as having introduced such measures or as having them under discussion are the Argentine, the British West Indies, Canada, Chile, Cuba, Ecuador, Finland, Greece, Hungary, India, Iraq, Latvia, Palestine, Peru, Portugal, Spanish Guinea, the Union of South Africa, the United States, Venezuela, Yugoslavia and Zanzibar.

New Zealand, which was one of the pioneer countries in respect of labour legislation almost half a century ago, has returned to its tradition by taking steps to restore the powers of the Arbitration Court and introducing legislation providing for a basic wage rate and for a standard working-week of forty hours. The Canadian Government passed in 1935 a new Minimum Wage Act, empowering the Governor-in-Council to fix minimum-wage rates, and a Fair Wages and Hours of Labour Act, providing for a forty-four-hour week and "fair wages" in all construction works undertaken or subsidised by the Government. The provincial legislatures also were active in this field. In the United States, the National Recovery Act was declared unconstitutional, and in May 1936 the Guffey Act, establishing a somewhat similar control over labour conditions in the bituminous coal industry, was also declared unconstitutional. A new impetus has been given to the negotiation of inter-State labour "compacts", the first of these to be drafted being concerned with Minimum-wage-fixing Machinery.

The control of wage rates, hours and conditions of work vested in Governments as a result of the extensive public works undertaken in many countries has led to pressure by organised labour to forestall the possibility of relief wages reducing standard rates. In New Zealand, one of the first acts of the new Labour Government was to raise the wages of relief workers to standard rates; it also restored the cuts in old-age pensions and in civil-service salaries. In most countries, relief wages are on a lower level than standard rates. In Belgium, for example, they may not exceed three-fourths of the normal rate. In the United States, after considerable discussion, the President was given power to fix appropriate wage rates for relief workers.

The organisation of labour conditions, including hours of work and wage rates, has taken a different form in the authoritarian countries. Whatever the effects of State organisation and regulation may have been in regard to the actual rates fixed, there has been a general tendency towards standardisation, involving a levelling-up of rates in the weaker sections of many industries. Considerable progress was made during 1935 in the organisation of the Austrian corporative State. In Italy and in Germany also, the organisation of the workers as an integral part of the State has proceeded steadily.

The movement towards a reduction of hours of work has also made some progress. A forty-hour week accompanied by a proportionate reduction of earnings has been in force in Italy since October 1934. In New Zealand, the introduction of the forty-hour week was not been accompanied by wage reductions. The principle of maintaining wages while reducing working-hours has also been followed in certain industries in Czechoslovakia, where hours were reduced in the yeast, artificial silk, glass bottle and alcohol distilling industries. There have been similar experiments mainly by individual enterprises, for example in the United Kingdom.

In general, therefore, there has been a considerable impetus to the movement for shorter hours and improved status and conditions. Many Governments have raised or restored the level of wages paid to civil servants, and by means of legislation have strengthened and extended the application of minimum standards arrived at by collective agreement or by arbitral awards. The wage increases hitherto gained have, however, been accompanied, as a general rule, by rising costs of living, so that real wage rates tend to fall, though real earnings over a period have tended to rise. There is, in consequence, a marked tendency in some countries, as usual in periods of increasing productivity, for the number of labour disputes to increase. This is very clearly indicated by the statistics of labour disputes in the United Kingdom. The number of disputes in 1935 was the greatest in any year since 1925, and over two-thirds of the working-days lost were in the coal-mining industry.

Labour Disputes in the United Kingdom, 1934 and 1935.

Industry	1934 Number of disputes	1934 Workers involved	1934 Duration in working-days	1935 Number of disputes	1935 Workers involved	1935 Duration in working-days
Coal-mining	143	73,300	364,000	217	199,700	1,368,000
Textile	57	15,800	88,000	64	14,200	106,000
Transport	31	10,600	43,500	36	24,000	82,000
Fishing and agriculture	—	—	—	4	5,900	67,000
Other industries	240	34,400	463,500	232	35,200	332,000
Total	471	134,100	959,000	553	279,000	1,955,000

Working-days lost as Consequence of Industrial Disputes.[a]

(000's omitted.)

Country	1929	1932	1933	1934	1935
Union of South Africa	11[b]	26	16	52	...
Argentine	544	1,358	40	742	2,643
Australia	4,461	212	112	370	497
Austria	388	190	79	0.2	0.4
Belgium	799	581	664	2,441	623
Bulgaria	378	7	26	...	...
Canada	154	255	317	574	289
China	712	711	462	501	518
Czechoslovakia	753	1,255	289	264	435
Denmark	41	87	18	146	14
Estonia	6	2	.	2	...
Finland	75	2	9	90	61
France	2,765	...	...	...	...
Germany	4,490	1,112	—	—	—
Hungary	149	33	125	92	111
Irish Free State	101	42	200	180	288
Japan	572	619	385	446	298
Latvia	46	23	24	24	...
Netherlands	991	1,773	534	114	262
New Zealand	26	108	65	10	18
Norway	197	394	364	235	...
Palestine	9	10	19	17	28
Poland	1,072	2,134	3,844	2,413	1,957
Roumania	411	104	57	156	361
Spain	313	3,589	14,441	11,103	...
Sweden	667	3,095	3,434	760	...
Switzerland	100	159	69	33	15
United Kingdom	8,290	6,490	1,070	960	1,960
U.S.A.	9,975	6,643	14,819	19,309	15,539
Uruguay	91	...	87	71	3
Yugoslavia	13	4	14	40	...

[a] *Year-book of Labour Statistics, 1935/36.*
[b] 1928.

THE LABOUR MARKET.

Like other aspects of economic organisation, the market for labour has undergone considerable change in the course of the last few years. It is probably too soon to assess the relative importance and likely permanence of the various influences at work. Political developments have affected the status and changed the functions of trade unions in many countries. The varying degrees of depression and recovery have also to be considered and it is not yet possible to distinguish clearly the permanent from the more transient effects of these economic fluctuations. Nevertheless, certain broad general tendencies, most of which are a continuation of historical trends, may be noted.

Perhaps the most fundamental, and certainly the most general, of these trends is the increasing measure of social responsibility which is felt by public opinion, and therefore by Governments, for the welfare of the wage-earning classes of the population. While this concern may be difficult to define and still more difficult to measure, it is expressed in a variety of practical ways. The helplessness of the individual worker in face of widespread and prolonged fluctuations of economic activity is a contributory cause. The scale of enterprise has vastly increased. Management becomes more remote from the detailed execution of industry. The opportunities for individual enterprise and self-reliance grow less as craftsmanship gives way to mass production and large-scale commerce competes more effectively with petty trade. The main exception to this trend is the possibility offered to small enterprises in certain new occupations rendering personal services, such, *e.g.*, as garages. The great mass of the labouring population has no alternative but to enlist in enterprises the ownership and management of which are beyond its control and often its knowledge. When such enterprises flag or fall in a general depression of economic activity, the possibility of alternative employment is slight. Moreover, such economic fluctuations as those recently experienced must have their origin in causes that are social rather than individual, financial rather than industrial, international rather than national. The individual employer or employee is by himself almost as helpless in face of such fluctuations as he would be before a natural calamity such as a flood or an earthquake.

The growing feeling of social responsibility for protection of the workers against the worst risks of unemployment is expressed by the measures taken in almost every country to provide relief work or sustenance, and by the provision of insurance schemes. The provision of safeguards against other social and industrial risks such as accident, old age, widowhood, orphanhood, industrial diseases and invalidity has generally antedated unemployment insurance. These safeguards are prompted both by the humanitarian desire to relieve distress due to misfortune and by the economic desirability of extending preventive and remedial assistance to individuals who might otherwise become a worse charge on the community.

It is but a short step from such measures to the safeguarding of a minimum standard of life for all members of the community, and this growing recognition of the social importance of ensuring such minimum standards is perhaps the outstanding labour development of recent years.

The steps taken to erect and maintain minimum standards and to devise safeguards against economic and social risks have involved increasing intervention by the State. The responsibility for prevention and relief of distress and for the maintenance of standards of livelihood tends to shift from the industrial group to the community as a whole. The organised State is charged with the execution of social as well as political duties. In some countries the character of the State has been radically altered, and in practically all the extension of the economic and social functions of Government presents new problems of organisation. By legislation establishing minimum codes or buttressing collective agreements regarding them, by the creation of new Government institutions for regulating labour conditions and by the importance of the employment it provides directly, the State steadily becomes a more important influence in the market.

Another respect in which State intervention has altered the conditions of the labour market has been by measures affecting the supply of labour. At one end of the scale, old-age pensions, and at the other end the extension of education to longer periods, have reduced the supply of workers in some countries. In Germany, women have been replaced by men, double employment has been eliminated in many instances and whole groups of people have been taken out of employment for racial or political reasons. Conscription or the lengthening of military service in some countries has reduced the labour supply also. The introduction of systems of labour service for the State has had the same effect, while various forms of training for the unemployed, notably the Civilian Conservation Corps in the United States, which provides training for boys and young men drawn from families on relief, have attempted to rehabilitate great numbers of workers and fit them for different work. The demand for labour, on the other hand, has been affected by great public-works programmes. In all three vital respects — the regulation of supply, the price to be paid, and the demand for labour — State action has been increasingly important in recent years.

The effect which these developments have had upon the status and functions of organised trade unionism has varied greatly with the political evolution of the leading industrial countries. The most extensive and powerful trade-union movement at the present time is that of the Union of Soviet Socialist Republics, but, under the Soviet system of planned economy, the functions of the trade unions have greatly changed. Whereas under private enterprise trade unions have generally assumed a defensive character safeguarding hardly-won privileges and standards, under the Soviet system they form a branch of government. There is no struggle for the right to organise, since membership is compulsory. The right to strike would be an anomaly. Trade unions, in Soviet Russia as elsewhere, naturally concern themselves with wages and labour conditions, but with the aim of co-ordinating these with other aspects of planned production rather than in a fighting spirit of establishing and defending certain minimum standards. The attitude to such problems as output, standardisation of wages, apprenticeship and admission to the various crafts has naturally changed. New methods of labour saving, increased output, flexible wage payments, training and recruitment emerge from trade-union initiative. "Ca' canny" has no place in the Soviet system. There is in many respects a directly contrary attitude to that usually attributed to trade unions in other countries. Thus, while there has in recent years been a noticeable trend in most countries towards the enforcement of uniform standards of wages and labour conditions, in the Union of Soviet Socialist Republics the trend has been in the opposite direction of greater flexibility. Standard labour contracts are giving place to arrangements which, while in general conformity with standard conditions, take account of the special circumstances of each particular undertaking. There is a campaign against wage standardisation, and new methods of remuneration aim at payment in accordance with the quantity and quality of the workers' output and the value of that output to the community. During 1935, the General Council of Trade Unions of the Union of Soviet Socialist Republics ordered a revision of existing collective agreements, notably in the transport industry, so as to conform to the new principles.

A great part of the activity of Soviet trade unions is concerned with the administration of social insurance. Much attention is paid also to education and to cultural development.

In November 1935, the General Secretary of the General Council laid stress on the necessity to "organise the spreading of the experience gained by those participating in the Stakhanov movement and bring the backward workers up to the level of the advanced guard". In these circumstances, wage negotiations have fallen more into the background as new positive responsibilities have been placed upon the trade unions.

In Italy, Germany and Austria, the trade unions have been transformed by being incorporated into the system of authoritarian government, and a similar tendency has developed in 1935 in Latvia and Lithuania. The former independent trade-union organisations have been replaced by workers' organisations formed under Government supervision. The participation of these new bodies in the organisation of corporative industry is perhaps more concerned with the detailed application than with the general formulation of policy. The centralised and authoritarian State plays the dominant rôle in their direction.

The International Federation of Trade Unions, the International Federation of Non-political Independent Trade Unions and the International Federation of Christian Trade Unions have suffered heavy losses of membership by the withdrawal *en bloc* of national movements. The statistics, so far as they are available, are summarised in the table which follows.

International Trade-union Movements, 1933-1936.[a]

Name	Total membership January 1st			Participating countries January 1st		
	1933	1934 (000's)	1935	1933	1934	1935
International Federation of Trade Unions (Paris)	13,710	9,295	8,216	30	30	26
International Federation of Christian Trade Unions (Utrecht)	1,511	1,000	1,007	11	10	10
International Federation of Non-political Independent Trade Unions (Utrecht)	803	267	264	10	9	9
Pan-American Federation of Labor (Washington)	.	.	3,770[b]	.	.	15
Red International of Labour Unions (Moscow)	.	.	.	.	.	.
International Working Men's Association (Madrid)	.	.	.	.	.	.

[a] *The I.L.O. Year-book, 1935/36.*

[b] Including only United States, Mexico, Puerto Rico and Venezuela.

The decline in membership of the first three international organisations during 1933 and 1934 shown above is sufficiently explained by the withdrawal of the German, Austrian, Latvian, Danzig and Lithuanian unions and by increased unemployment in Belgium, France, the Netherlands and Poland. The tide turned in 1935 with increasing union membership in many countries and with the adherence of the Norwegian and Finnish movements. In France, the General Confederation of Trade Unions and the Communist Federation of Labour decided in September 1935 to amalgamate. The effect of these changes will not be fully revealed in the statistics until the beginning of 1937.

The most important developments of an international character, however, occurred in the Americas. The effect of the "New Deal" and the public opinion that lies behind the introduction of social legislation into the United States has been to strengthen the movement towards labour organisation. While the status of unionism is not settled and there is a sharp struggle between independent and company unions and between the adherents of craft and industrial organisation, the membership of the unions as a whole has grown. The rapid growth of industry during the depression in the South- and Central-American countries has also stimulated both union organisation and social legislation. The Pan-American Federation of Labour comprises organisations in fifteen countries. Moreover, the American Federation of Labour, at its Atlantic City Conference in October 1935, gave power to its executive to negotiate for re-affiliation with the International Federation of Trade Unions. The declaration announcing this decision stated, *inter alia*:

> "A new situation now confronts the trade-union movement the world over. The growth of dictatorships has been a powerful threat to the free trade union movement everywhere.... Unless there can be created some effective vehicle for international labour solidarity, the trade-union movement may be further seriously weakened in those countries adjoining these dictatorships and over which they exercise such profound influence.
>
> "In the second place, there is the threat of war which becomes a more serious menace with the growth of dictatorships. The power of international organised labour is perhaps the most effective instrument to stand athwart the path of such dictatorships and their imperialistic plans." [1]

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[1] *The I.L.O. Year-book, 1935/36.*

Elsewhere, the general economic recovery in 1935 tended to restore trade-union membership and increase trade-union activity. The growth of unionism in the countries where industrial development is proceeding rapidly was specially noteworthy. Not only in South America, but also in India, South Africa, Australia and New Zealand, and many of the smaller European countries, the unions gained strength during 1935.

There are, therefore, three broad areas in which trade-union developments, and the organisation of the labour market generally, are proceeding on divergent lines. In the Union of Soviet Socialist Republics, the trade unions have developed new constructive functions; in Italy, Germany, Austria, Latvia and Lithuania, they have been remodelled to take their place as part of the administrative machinery of centralised government. Over the greater part of the world, however, their evolution proceeds towards stronger and more influential membership, and aims, by collective action or through legislation, at the establishment, maintenance and improvement of minimum wages and working conditions.

Chapter VI.

THE LAG IN WORLD TRADE.[1]

A Slight Recovery.

In the year 1935, for the first time since 1929, the gold value of world trade rose slightly, by just under 2%. The quantum of trade began to increase slowly in the third quarter of 1932 and, if allowance is made for seasonal movements, has continued to increase up till the present time. The rate of increase, however, has been very small, though it quickened rather noticeably in the last quarter of 1935. If the value of world trade is expressed in sterling, it has been increasing since about the middle of 1933.

It is perhaps significant that, not only the gold value, but the quantum of goods exchanged should have increased more sharply in late 1935 and the early months of 1936. The rise in gold value mainly reflects the stable relationship of sterling to gold since the second quarter of 1935. As long as sterling was depreciating in terms of gold, it was necessary to convert the substantial proportion of world trade conducted on a sterling basis into gold values at falling exchange rates. Since depreciation has stopped, the slow expansion of this trade is reflected in gold as well as sterling values; and, in addition, the quantum of world trade has begun, after the usual time-lag, to increase at a faster rate.

The annual figures reproduced below tend to minimise the recovery that occurred, mainly in the latter part of 1935 and the first half of 1936. As will be shown later, there was in this period a substantial increase both in total value and in the prices, particularly of raw materials, entering into international trade. Since the value rose more than the price-levels, there was obviously an increase in the quantum of goods exchanged. The exact extent to which the increased value is due to rising prices or an increased quantum, and the distribution of these changes over the various commodities and among the principal trading countries, cannot be measured until fuller statistics become available; but it is advisable to bear this more recent development in mind when considering the annual figures summarised below.

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[1] This chapter is largely based on *The Review of World Trade, 1935*, Geneva, 1936.

Before setting forth these figures in detail, it is of some interest to compare the recent statistics of world trade and world production with the analogous development in the previous period of recovery after the immediate post-war crisis. The essential figures are summarised in the table below:

World Production and Trade, 1925-1927, compared with 1933-1935.

	Base: 1925 = 100.		Base: 1933 = 100.	
	1926	1927	1934	1935
World production	101	104	108	118
World trade quantum . .	102	111	103	105

While the periods may not be strictly comparable, the contrast between them is so striking as to warrant attention. In the earlier period, trade expanded faster than production; in the latter, production has gone ahead much faster than trade.

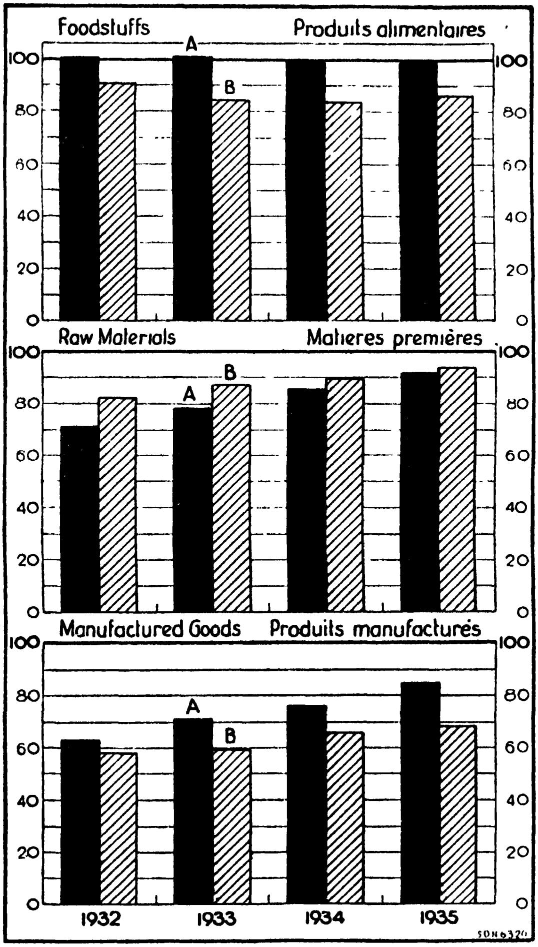
Since 1932, the revival of industrial activity in the world as a whole has been much more marked than the recovery of trade, while agricultural production, despite restriction and drought losses in the United States, has never fallen as much as industrial production or international trade. Increased trade barriers, which stimulate national production of agricultural commodities in industrial, and of manufactured goods in agricultural, countries, provide the chief reason for this development. The absence of long-term capital movements is an important contributory factor. The use of accumulated stocks of raw materials and certain foodstuffs has also obviated the necessity for larger imports in many countries where industrial activity has increased. Thus, the composite world index of visible stocks of primary commodities, which reached its peak at 270 in 1932 (compared with 1923-1925 = 100), had fallen by 1935 to 216. In the United States itself, stocks of raw materials are estimated to have fallen by nearly 30% during 1935. The most striking example was that of Germany, where, as industrial activity increased, stocks of raw materials fell heavily, without being replenished by increased imports. It is possible that, after a certain lag, the exhaustion of stocks may lead to increased international trade; but the barriers to trade remain as a check to any such increase.

From the next diagram it will be seen at once that the production of foodstuffs has been maintained at practically the same level throughout the recovery as it was during the depression. There has, however, been little expansion of trade, the slight increase shown in 1935 being largely due to United States imports on account of drought conditions. The production of raw materials, on the other hand, fell to low levels in 1932; but since then increased trade has accompanied increased production. The revival of manufacturing activity has been very marked also; but trade in manufactured articles, though increasing, has not kept pace with production. The great obstacles to a revival of international trade are the restrictions arising out of agricultural protection in industrial and industrial protection in agricultural countries.[1]

Quantum Movement of World Production and World Trade in Foodstuffs, Raw Materials and Manufactured Goods, 1932-1935.

(Base: 1929 = 100.)

A Production. B Trade.



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[1] For a more detailed statement of these developments, see *World Production and Prices, 1935/36*, League of Nations, Geneva, 1936.

The next table gives for recent years the total value of trade expressed in terms of gold and of sterling, together with the quantum index and the indices of gold and sterling prices.

Quantum, Prices and Value of World Trade.

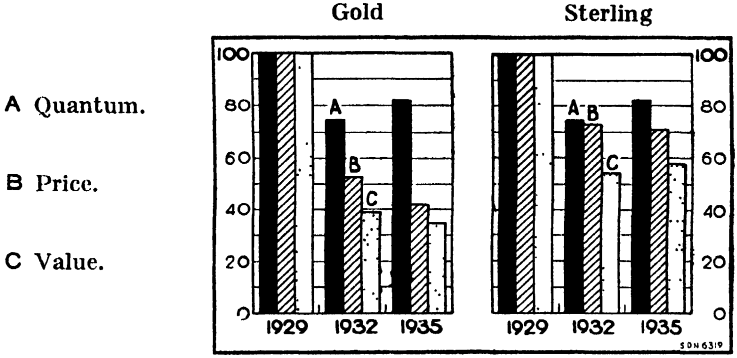
	1929	1932	1933	1934	1935 [a]
Value in U.S. gold $ (000,000's)	68,129	26,666	23,997	23,114	23,550
Index	100	39.1	35.2	33.9	34.6
Value in £ stg. (000,000's)	13,999	7,606	7,242	7,690	8,095
Index	100	54.3	51.7	54.9	57.8
Index of gold prices	100	52.5	46.5	43	42
Index of sterling prices	100	73	69	70	71
Quantum (1929 = 100)	100	74.5	75.5	78.5	82

[a] Excluding Italy in the last quarter of the year 1935.

The difference between calculations in terms of sterling and of gold is made clearer by the following diagrams:

World Trade in Terms of Gold and of Sterling.

(Base: 1929 = 100.)



In order to show the more rapid increase in the quantum and value of world trade from the last quarter of 1935 onward, the following table is given:

Quarterly Indices of Gold Value, Gold Prices and Quantum of World Trade.

Year	Quarter	Gold value [a]	Gold value [b]	Gold prices	Quantum
1934	I	34.1	.	45.0	75.7
	II	33.5	.	44.0	76.1
	III	32.9	.	43.5	75.6
	IV	35.9	.	44.0	81.6
1935	I	33.1	33.2	43.0	77.1
	II	33.4	33.4	43.0	77.8
	III	33.7	33.8	44.0	76.7
	IV	...	38.5	45.5	84.5
1936	I	...	36.0	45.0	80.1
	II	...	36.1	45.5	79.3

[a] Including Italy. [b] Excluding Italy.

It is clear that, from the last quarter of 1935 onwards, there was a substantial acceleration in the rate at which the quantum of trade increased. A seasonal increase is normal in the last quarter of the year, but in 1935 the increase was greater than usual. The rise in gold prices from the second quarter of 1935 onwards reflects both a rising price tendency in the gold-standard countries and the stability of the sterling exchange.

The next table, which shows the substantial increases of imports and exports in a great number of countries in the

The Increase of Imports and Exports of Certain Countries in 1936 compared with 1935.

(Monthly average: National currencies (000,000's).)

Country	Months compared	Imports %	Exports %
Belgium	I-V	+ 39	+ 37
Union of South Africa	I-V	+ 14	+ 30
China	I-VI	— 16	+ 28
Chile	I-IV	+ 33	+ 27
New Zealand	I-V	+ 15	+ 26
Finland	I-V	+ 17	+ 23
Australia	I-V	+ 16	+ 20
Canada	I-V	+ 11	+ 18
Portugal	I-V	— 8	+ 18
Brazil	I-IV	+ 21	+ 16
Roumania	I-V	+ 7	+ 15
Sweden	I-V	+ 12	+ 15
Germany	I-V	— 3	+ 14
Poland and Danzig	I-V	+ 17	+ 14
U.S.A.	I-V	+ 16	+ 14
Irish Free State	I-V	+ 4	+ 13
Netherlands Indies	I-IV	— 7	+ 13
Norway	I-V	+ 12	+ 12
Bulgaria	I-V	+ 17	+ 11
Hungary	I-V	+ 26	+ 10
Peru	I-V	+ 10	+ 10
India	I-V	— 8	+ 10
Denmark	I-V	+ 2	+ 9
Estonia	I-V	+ 26	+ 8
Czechoslovakia	I-V	+ 23	+ 8
Austria	I-V	+ 8	+ 7
Japan	I-VI	+ 11	+ 4
Iran	I-IV	+ 54	+ 3
Greece	I-V	+ 13	+ 2
United Kingdom	I-V	+ 10	+ 1
Netherlands	I-VI	+ 2	± 0
Switzerland	I-VI	— 13	— 1
British Malaya	I-IV	— 1	— 5
Indo-China	I-IV	+ 3	— 8
Egypt	I-V	+ 8	— 9
France	I-V	+ 13	— 9
Yugoslavia	I-V	+ 17	— 13
Argentine	I-V	— 2	— 14

first four or five months of 1936 as compared with the corresponding period of 1935, further emphasises the acceleration of recovery that has recently occurred. The chief exceptions are countries such as India, Yugoslavia and the Argentine, which have widely distributed surpluses of agricultural exports that have suffered from the recent bilateral balancing of trade, and France, whose export trade is handicapped by high domestic prices.

Upon closer examination it becomes apparent that the recent tendency for the total of world trade to increase is largely the result of an improved demand for raw materials. This improved demand, as will be shown later, is largely concentrated in certain industrial countries where economic activity is rapidly increasing. Great changes are taking place in the methods by which international trade is conducted and in its geographical distribution. These changes are discussed in the following section. Meantime, attention should be drawn to the related changes which may be observed in the commodity composition of international trade. These may be summarised briefly in the following table.

Commodity Composition of the Gold Value of World Trade, 1929-1935.

Commodity group	1929 %	1932 %	1933 %	1934 %	1935 %
Foodstuffs	25	30	27.5	25.5	25
Materials, raw or partly manufactured	35.5	32.5	35.5	36.5	37.5
Manufactured articles . .	39.5	37.5	37	38	37.5
Total.	100	100	100	100	100

The movement revealed in this table is instructive. Since 1932, there has been a continuous decline in the relative importance of foodstuffs, a steady and substantial increase in raw materials and practical stability in the index of manufactured goods exchanged. These movements result from a combination of quantum and price changes in each group. Thus, since 1932, foodstuffs have decreased in quantum and fallen in price, raw materials have increased in quantum and their price-fall has been much less than that of foodstuffs, while manufactured articles have increased in quantum but fallen heavily in price.[1]

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[1] The annual statistics are as follows:

(Base: 1929 = 100.)

	1932	1933	1934	1935
Foodstuffs: Quantum	90.5	84.5	84	86
Gold price.	52	45.5	41	40
Raw materials: Quantum	82	87.5	89.5	93.5
Gold price.	44	40.5	39	39
Manufactured articles: Quantum	58	59.5	65.5	68.5
Gold price.	64	55.5	49.5	48

It is not surprising to find that the prices of manufactured goods are falling more than those of raw materials, and it is possible, indeed, that later figures may show rising prices for the latter. The most significant development, however, is the tendency for the quantum of foodstuffs to fall, the slight rise in 1935 being mainly due to the drought in the United States, which caused an increase in the imports of foodstuffs to that country. In both the United Kingdom and Germany, the quantum of food imports fell in 1935.

One further point should be added. The *Review of World Trade, 1935*, contains a calculation from which it appears quite clearly that an important part of the recent increase of world trade is an increased movement of capital goods. Since the prices of most of these goods fell during the period considered, the increase of quantum is greater than the increase of gold value. The latter increased by 7% between 1932 and 1935, while the value of other commodities entering into international trade fell by 18.8%. The proportion of trade accounted for by capital goods therefore rose from 19.2% to 23.9%. These figures reflect the recent tendency for trade to be confined in greater degree to an exchange of capital goods from the industrial countries against raw materials from the agricultural-exporting countries. Recovery has taken a typical cyclical form in the great industrial countries, so that increasing quantities of raw materials for the capital-goods industries are demanded. On the other hand, industrial development is proceeding apace in the agricultural countries, which, in consequence, import greater quantities of manufactured capital goods. Other aspects of this development, notably the reduced trade in foodstuffs as agricultural self-sufficiency becomes greater in the industrial countries, the rearrangement of markets and the continued decline of triangular trade, are examined in later sections of this chapter.

The extent to which export prices have fallen because channels of trade remain choked is revealed by the next table, giving index-numbers of the gold prices of representative commodities which enter into international trade.

It is obvious at a glance that a variety of factors must be considered in connection with each commodity. The particularly heavy fall in raw-silk prices is largely due to the decline in American purchases, while the low levels of grey cottons, silk tissues and wool largely reflect the rapid spread of local textile manufactures behind the shelter of tariff and quota protection in many countries. The export surpluses of these commodities that have to be sold in competitive world markets can be realised only at low price-levels. Some foodstuff and raw-material

Gold Export Prices, 1932-1936.

(Base: 1929 = 100.)

Commodity	Annual average				First quarter,
	1932	1933	1934	1935	1936
Raw silk (Japan)	32	26	16	19	23
Coffee (Brazil)	47	36	32	24	24
Copper (U.S.A.)	34	30	25	25	27
Maize (Argentine)	37	30	35	28	27
Grey cotton tissues (Japan) . . .	37	34	32	29	28
Sugar (Czechoslovakia)	49	45	37	30	33
Silk tissues (France)	39	37	36	31	31
Butter (New Zealand)	40	39	24	29	31
Petrol (U.S.A.)	53	40	32	32	34
Newsprint paper (Canada)	70	47	35	34	34
Cotton (U.S.A.)	37	37	37	37	37
Cement (Germany)	65	50	46	44	40
Mechanical wood pulp (Finland) .	50	45	45	40	41
Rubber (Br. Malaya)	16	19	34	35	44
White cotton piece-goods (U.K.) .	52	50	46	44	44
Steel girders (Belgium).	83	70	64	48	45
Bacon (Denmark)	36	43	48	47	...
Chilled beef (Argentine)	47	45	39	48	48
Passenger motor-cars (U.S.A.) . .	83	58	47	47	50
Pig-iron (U.K.)	62	59	53	52	56
Tea (Ceylon)	38	47	52	52	57
Wheat (U.S.A.)	48	39	29	44	58
Tin (Br. Malaya)	47	63	68	64	61
Coal (U.K.)	73	68	61	60	62
Wool (Australia)	52	47	78	46	72
Mowing-machines (Germany) . . .	95	89	86	85	78

prices are rising for special reasons, among which is the continued drought in the United States. While the chief effect of the successive harvest failures in that country is to be seen in the rise of wheat prices, it is noticeable also in the price of other textile materials and of some foodstuffs, notably butter and chilled beef. There has been a partial failure of the cocoon crop in Japan also. On the other hand, the continued and sometimes sharp decline of all the manufactured and semi-manufactured articles included in the table (except motor-cars in the United States and pig-iron in the United Kingdom) is striking.

Foodstuffs have fallen more than the average. It is quite clear that agricultural protection on the one hand and industrial protection on the other have made it more difficult to market surplus exports from specialised areas. International specialisation has been greatly restricted in recent years and this restriction continues, involving a very drastic reorganisation of international trade.

The combined result of quantitative import restrictions and low prices is very clear in the decreased value of food exports. The following table gives the total value of world exports of certain staple foodstuffs and raw materials. Between 1932 and 1935, there has been a striking reduction in the value of food exports, which contrasts sharply with the increase in raw-material exports.

Gold Value of Certain Staple Exports in World Trade.

Former U.S. gold $ (000,000's).

	1932	1934	1935
Foodstuffs:			
Wheat	341	236	246
Maize	125	86	83
Sugar	346	257	217
Butter	181	125	136
Cheese	77	52	47
Frozen and chilled meat	91	78	89
Coffee	243	198	150
Tea	110	117	110
Total	1,514	1,149	1,078
Raw materials:			
Raw cotton	497	444	468
Raw wool	214	272	264
Rubber	45	138	114
Coal	255	211	211
Mineral oils (unrefined)	137	142	151
Petrol (motor-spirit, etc.)	194	126	127
Copper, unworked	84	118	134
Tin, unworked	27	40	47
Tin-ore	24	29	25
Total	1,477	1,520	1,541

Fuller details of the restriction of food imports and the consequent pressure on prices are given in the *Review of World Trade, 1935*. In part, the reduced trade in foodstuffs is due to poor harvests — *e.g.*, in the United States — and to a diminution of stocks; but the main cause has been the protection of domestic agriculture in former importing countries.[1]

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[1] *Cf.* the following table showing net imports of wheat and wheat flour into certain countries:

Metric tons (000's).

	Average 1924-1928	1932	1935
Czechoslovakia	576	358	96
France	1,247	1,989	—211[a]
Germany	1,999	537	136
Italy	2,241	885	.[b]
Poland	174	— 68[a]	—135[a]
Sweden	226	171	— 80[a]
Spain	54	292	1
United Kingdom	5,526	5,743	5,387

[a] Net export.
[b] Not available.

Even where food imports have been fairly well maintained, and to some extent also in the case of raw materials, there has in many cases been a considerable shift in the sources of supply. Thus, the United Kingdom has bought more butter from New Zealand and less from Denmark, more bacon from Canada and less from Denmark, more frozen meat from Australia and New Zealand and less from the Argentine. Germany has transferred a large part of her cotton purchases from the United States to Brazil and Egypt and of her wool from Australia to South Africa, the Argentine and Chile. Italy has bought Hungarian wheat at prices above those ruling in the world market.

It is evident that very important changes are taking place both in the commodity composition and in the geographical distribution of world trade.

SHIFTS IN THE DISTRIBUTION OF WORLD TRADE.

The most striking feature of the recovery that has been taking place in the distribution of world trade is the continuous diminution of Europe's share in the total. The decline in European trade, which has been continuous since 1932, is more marked in exports than in imports. On the contrary, the exports of the debtor countries outside Europe have increased faster than their imports. The main reason for these developments has been the cessation of capital exports from the creditor countries.

The continental distribution of world trade is summarised in the following table. It will be seen that the greatest recovery in 1935 was again in North America; but the index for that area is still lower in comparison with 1929 than that of the other continents. The trade of Latin America also increased, but from a relatively low level. The share of Africa, Asia and Oceania in world trade, which was greater in 1934 than in 1929, further increased during 1935. Europe's share, which increased considerably in the depression years, is still slightly more than in 1929, but falling rapidly — Europe has failed to share in the recovery of world trade that has been under way since 1932. In 1935, the gold value of the trade of European countries [1] declined slightly (by 2%), whereas in every other continent it increased — by 2% in Asia, 5% in Latin America, 7% in Africa, 9% in Australia and New Zealand, and 12% in North America.

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[1] Including the Union of Soviet Socialist Republics, but excluding Italy for the third quarter of 1934 and 1935.

The Value of World Trade by Continental Groups. [1]

(Basis: Recorded values, reduced to U.S. gold dollars (000,000's); special trade; merchandise only.)[a]

Continental group	1929		1932		1934		1935	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1. Europe, excluding U.S.S.R. and Italy, Dec. qrs. [b]	19,134	15,435	8,040	6,197	6,971	5,343	6,790	5,288
2. Europe, including U.S.S.R. . .	19,863	16,127	8,501	6,585	7,194	5,629	6,914	5,477
2(*a*). Europe, including U.S.S.R., excluding Italy, Dec. qrs. [b] . . .	19,587	15,910	8,402	6,493	7,091	5,558	6,914	5,477
3. North America[c].	5,676	6,428	1,731	2,094	1,299	1,732	1,549	1,845
4. Latin America [d]	2,707	3,167	749	1,177	742	1,085	803	1,118
5. Africa	1,699	1,483	807	868	760	737	768	830
6. Asia, excluding U.S.S.R..	4,679	4,938	1,904	1,768	1,699	1,755	1.737	1,792
7. Oceania	971	884	277	396	289	367	322	395
Total, excluding Italy, Dec. qrs. [b]	35,319	32,810	13,870	12,796	11,880	11,234	12,093	11,457

[a] In a few countries the figures include bullion and specie or relate to general trade.
[b] Italian statistics not available for December quarter, 1935.
[c] Canada, U.S.A., Newfoundland, Greenland, St. Pierre and Miquelon.
[d] America, other than North America as defined above.

In order to bring out the extent to which the relative share of the various continental groups in the total of world trade has changed in the recovery period, the following brief summary table is added. It should be pointed out that the increased proportion of trade now being conducted by Asia, Africa and Oceania is a continuation of the trend noted in the period of

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[1] The index-numbers based on these figures (1929 = 100) are:

	1932		1934		1935	
	Imports	Exports	Imports	Exports	Imports	Exports
1. Europe, excl. U.S.S.R. and Italy, Dec. qrs.	42	40	36	35	35	34
2. Europe, incl. U.S.S.R. . .	43	41	36	35	35	35
2 (*a*). Europe, incl. U.S.S.R. and excl. Italy, Dec. qrs.	43	41	36	35	35	34
3. North America	30	33	23	27	27	29
4. Latin America	28	37	27	34	30	35
5. Africa	48	59	45	50	45	56
6. Asia, excluding U.S.S.R.	41	36	36	36	37	36
7. Oceania.	29	45	30	42	33	45
Total, excl. Italy, Dec. qrs.	39	39	34	34	34	35

recovery after the first post-war crisis. That trend was summarised by the Economic Intelligence Service in 1926 in the phrase: "Trade is passing from the Atlantic to the Pacific". The depression years 1929-1932 saw a sharp reversal of the trend. The inherent trading strength of the European countries, combined with the creditor position of some of them, was such that the fall in export prices was concentrated mainly upon the agricultural-exporting countries, many of whom were outside Europe. This, together with the great shrinkage of United States trade, caused the European percentage of the smaller world trade in 1932 to be greater than in 1929. Since that time, however, European trade, though still more than half the world total, has continued to shrink while there has been expansion elsewhere.

Continental Distribution of the Value of World Trade.

Continental group	Imports		Exports		Total	
	1932	1935	1932	1935	1932	1935
Europe, including U.S.S.R. . .	60.6	57.2	50.7	47.8	55.9	52.6
North America	12.5	12.8	16.4	16.1	14.3	14.4
Latin America	5.4	6.6	9.2	9.8	7.2	8.2
Africa	5.8	6.3	6.8	7.2	6.3	6.8
Asia, not including U.S.S.R. . .	13.7	14.4	13.8	15.6	13.8	15.0
Oceania	2.0	2.7	3.1	3.5	2.5	3.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

If the quantum, as distinct from the value, of world trade is considered, the decline in Europe's share is considerably greater. Between 1932 and 1935, European imports fell in quantum by 2.4%, while the quantum of imports to the rest of the world rose by 27%. European exports rose by only 4.7% in quantum, those of the rest of the world by 15.6%. The obvious reason for this development is the multiplicity and effectiveness of trade restrictions, especially quantitative restrictions, in most European countries. Shut out by these measures from their former markets, the export surpluses of the agricultural-producing countries in particular have been directed to other markets. New trade connections, eliminating Europe in greater and greater degree, are being built up. The disturbance of markets caused in this way has not been without awkward repercussions during 1935 and 1936. The diversion of Japanese exports to new markets has been met by special restrictions in India, in the British and Dutch colonial empires, in several South American countries, and in Australia. The expansion of United States manufactured exports has also encountered resistance — for example, in Australia. The greatest trade expansion since 1932 has been in such directions as the export of Australian wool to Japan, the increased exchange between the United States and Canada and South America, and Japanese exports to Asia, Africa and South America.

Preferential trade has tended to increase within the boundaries of the great colonial empires — the British, Netherlands and French. The trade of the British Empire (including the Dominions and India), for example, which fell from 27.9% of the total gold value of world trade in 1929 to 26.7% in 1931, increased by 1935 to 30%. Of this value, the proportion consisting of inter-Imperial trade, which in 1929 and in 1931 was only 25.7%, has risen steadily. Official figures for 1935 are not available, but, in 1934, inter-Imperial trade represented 29.7% of the total gold value of the trade of the Empire. The increase of this percentage has been continuous since the Ottawa agreements were signed in 1932. Moreover, the passive balance of the British Empire as a whole has fallen steadily. Adjusted for specie shipments and freight charges that appear in the statistics of some Empire countries without offsetting items in others, the balances of trade have been as follows:

U.S. gold $ (000,000's).

	1929	1932	1934	1935
Passive (import) balance of the United Kingdom . . .	– 1,858	– 997	– 855	– 803
Active (+) or passive (—) balance of the rest of the Empire	– 240	+ 16	+ 61	+ 41
Passive balance of whole Empire	– 2,098	– 981	– 794	– 762

It is clear from these figures that the British Empire is buying less from the outside world, not only because imports into the United Kingdom have been greatly reduced, but also because an import balance in the rest of the Empire has been transformed into an export balance. Since passive and active balances within the Empire cancel out, this results in a considerable reduction of the passive balance for the Empire as a whole. The obverse of this development is the acceptance of a substantial loss in foreign investments.[1]

The proportion contributed to world trade by the French and Netherlands empires has fallen since 1933, mainly as a result of the currency policy that has been followed; but in both, the proportion of inter-Imperial trade increased. The statistics of these three great empires may usefully be compared as follows:

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[1] " If one admits that a country can only make use of its income from abroad through net imports of goods, it is obvious that the change in England's trade implied a generous writing-off on her foreign investments ". — Folke HILGERDT, " The Approach to Bilateralism — a Change in the Structure of World Trade ", *Index*, August 1935, page 183.

	1929	1932	1935
Total gold value of world trade	100	100	100
British Empire	27.9	27.5	30.0
French Empire	8.0	10.2	8.8
Netherlands Empire	4.7	5.1	4.6
United States* of America . . .	13.8	10.8	10.8
Rest of world	45.6	46.4	45.8

Detailed statistics of the absolute value and percentage share of the various countries in the total of world trade are given in the *Review of World Trade*, and it is not proposed to repeat them here. The most striking changes during 1935 were a sharp rise (by 24%) in imports to the United States, the emergence of a small export surplus in Germany, continued decline in the gold *bloc* countries, and a widespread tendency to increase, particularly in exports, among the smaller countries. Of the twenty-six countries [1] whose exports declined in gold value in 1935, France, the Netherlands, Netherlands Indies, Morocco (French zone), Poland and Switzerland maintained the gold parity of their currencies. Italy was affected in the same way for the first three quarters of the year and afterwards found a great part of her export trade cut off by economic sanctions. Belgium also was a member of the gold *bloc* until April 1935, and the expansion of her imports after that month was not sufficient to compensate for the depreciation of her currency Among the other countries where exports decreased, the decrease was usually small. Denmark was adversely affected by commercial restrictions in the United Kingdom, and Spain by a tariff war with France. A fall in the price of timber affected export values from Sweden, Finland and the Union of Soviet Socialist Republics, lower coffee prices affected Brazil and Colombia, and New Zealand suffered from low butter and wool prices in the early part of 1935. Currency depreciation lowered the gold value of exports from Manchuria and Iran. In general, however, the smaller countries of the world contributed more to the increase in the aggregate gold value of world imports in 1935 than did the great trading countries. Indeed, throughout the depression and subsequent recovery, the dependence of the smaller countries upon external trade has been strikingly demonstrated. Moreover, in the struggle for bilateral trade balancing, many of the smaller countries have been able to attach themselves to some great creditor nation.

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[1] France, Belgium, the Netherlands, Italy, Manchuria, Sweden, Switzerland, Denmark, Union of Soviet Socialist Republics, Brazil, Netherlands Indies, Spain, Poland, New Zealand, Finland, Venezuela, Philippines, Ceylon, Iran, Colombia, Portugal, Turkey, Morocco (French zone), Southern Rhodesia, Honduras, Haiti.

The currents of trade in the principal trading countries and regional groups are studied in the *Review of World Trade,* to which reference should be made for more detailed analysis than is possible here.[1] The main tendencies revealed by that analysis are the closer integration of imperial trade to which reference has been made above, the notable increase of United States trade, particularly imports, in 1935, the changed direction of German import purchases and export sales, and the modification of trading relations caused by increasing industrialisation in agricultural countries and greater agricultural self-sufficiency in industrial countries. To these may be added the disturbance caused by exchange restrictions and the spread of clearing agreements, particularly in Europe.

The trade of the United Kingdom in 1935 was influenced by most of these tendencies both directly because of the importance of the British market, and indirectly as a result of their repercussions on the British Dominions and Colonies, as well as on many other countries with which British trading connections are important and where British investments are heavy. Exports from the United Kingdom increased in 1935 by 8% in quantum and by rather less in value, the average price falling slightly. The greater part of the increase went to British countries overseas.[2] Most of it consisted of capital

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[1] Complete statistics are given in the annual volume entitled *International Trade Statistics.*

[2] Percentage Geographical Distribution of the General Trade of the United Kingdom:

	Imports			Exports		
	1929	1934	1935	1929	1934	1935
I. Nine highly developed countries in which British investments are relatively small:						
U. S. A.	16.1	11.2	11.6	7.4	5.2	6.3
Germany	5.6	4.2	4.0	7.2	5.1	5.5
France	4.6	2.6	2.9	5.9	5.2	4.9
Denmark	4.6	4.5	4.2	1.4	3.2	3.0
Five European industrial countries[a]	10.9	8.6	8.6	9.1	9.8	9.2
Total: Group I	41.8	31.1	31.3	31.0	28.5	28.9
II. British countries:						
Australia	4.6	6.8	7.2	6.7	6.1	6.2
Canada	3.8	6.9	7.4	4.5	4.7	4.7
India	5.1	5.8	5.4	9.5	8.3	8.0
New Zealand	3.9	5.5	5.0	2.7	2.6	2.8
Others	12.0	12.1	12.6	18.0	22.3	23.0
Total: Group II	29.4	37.1	37.6	41.4	44.0	44.7
III. Foreign countries other than those of Group I:						
Argentine	6.8	6.4	5.8	3.5	3.3	3.3
Brazil	0.6	1.1	0.9	1.6	1.3	1.0
Egypt	1.9	1.6	1.7	1.5	1.5	1.6
U.S.S.R.	2.2	2.4	2.9	0.8	1.7	2.0
Others	17.3	20.3	19.8	20.7	19.7	18.5
Total: Group III	28.8	31.8	31.1	27.6	27.5	26.4
Total: Groups I-III	100.0	100.0	100.0	100.0	100.0	100.0

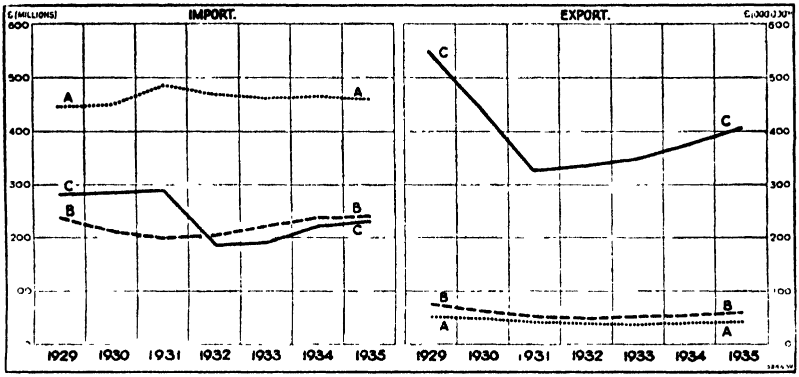
[a] Belgium, Czechoslovakia, Netherlands, Sweden, Switzerland.

goods — ores, iron and steel and other metals, metal manufactures, instruments, electrical goods, machinery and vehicles.[1] Silk exports also increased considerably, but cotton goods made slight headway. Imports of foodstuffs declined in quantum by 1 %, but rose in value by 2.7 %, prices rising as a result of import restrictions. Raw-material imports rose substantially both in price and in quantum.

United Kingdom: "Annual Movement of the Quantum of Trade".[a]

(Values, in million £, at 1930 prices.)

A Food, drink and tobacco.
B Raw materials and articles mainly unmanufactured.
C Articles mainly or wholly manufactured.



[a] Retained imports; exports of domestic produce.

Increased import purchases by the United States were widely distributed over foodstuffs, raw materials and manufactures from a considerable number of countries. They were caused in part by the continued drought — Argentine exports of cereals to the United States, for example, were twice as great in 1935 as in 1934. In some degree, also, they were the result of the reciprocal trade treaty programme; but most of the treaties negotiated did not enter into force early enough to exercise much influence on the trade figures for 1935. In the main, it seems clear that the increased imports reflected industrial recovery and revived demand for raw materials and special manufactures. The beneficial results of larger American purchases extended over a wide area and affected many commodities — rubber from the tropical East, glass from Belgium, agricultural produce from South America and South-Eastern

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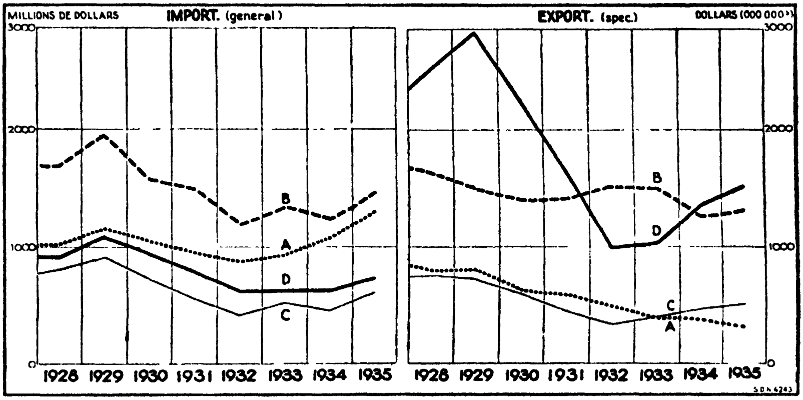
[1] Vehicles includes motor-cars the export quantum of which was 18 % higher in 1935 than in 1934.

Europe,[1] raw silk from Japan, tin from Bolivia and British Malaya, copper from Northern Rhodesia and the Belgian Congo, wool from Australia, timber from Canada. Such widespread and important repercussions indicate how important for the world as a whole is the recovery now gathering way in the United States. As purchasing power rose, there was a substantial increase of manufactured imports also — woollen and cotton imports, for example, increasing in value by 35% and 28% respectively.

U.S.A.: Annual Movement of the Quantum of Trade.

(Values, in million $, at 1923-1925 prices.)

A Foodstuffs (crude and manufactured). C Semi-manufactures.
B Crude materials D Finished manufactures.



Exports rose also, though less than imports, the active balance of commodity trade being the lowest recorded for twenty-five years. Most of the increase was in such export commodities as motor-cars and machinery. The continued drought restricted agricultural exports, though raw cotton and tobacco were exported in greater volume. In face of import restrictions in many countries, the export expansion, unlike that of imports, was concentrated on a relatively few countries, particularly in Latin America and the British Dominions. The steps taken by Australia in May 1936 to curtail imports from the United States indicate the difficulties of further expansion. The dominating position of the European markets for American exports shows clearly how incomplete any export recovery must be as long as trade restrictions continue to be so effective in them.

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[1] The total exports to the United States from Bulgaria, Greece, Hungary, Roumania, Turkey and Yugoslavia increased from $11.7 million (gold) in 1934 to $15.7 million in 1935, or by 34%.

The Distribution of United States Imports and Exports.

Region	Imports			Exports		
	$ (000,000's)		Percentage increase (+) or decrease (—)	$ (000,000's)		Percentage increase (+) or decrease (—)
	1934	1935		1934	1935	
Europe	489	599	+ 22	950	1,028	+ 8
Latin America . . .	371	461	+ 24	307	345	+ 12
Five British countries[a].	304	379	+ 25	432	480	+ 11
Other countries	491	608	+ 24	444	429	— 3

[a] Australia, Canada, India, New Zealand and Union of South Africa.

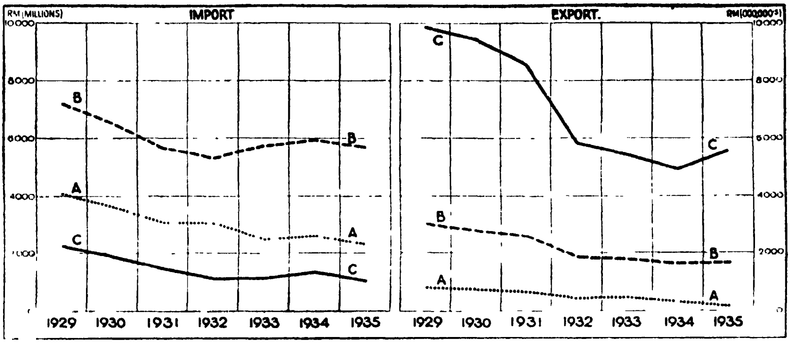
Meantime, the new devices, of which the German " New Plan " is the most developed and effective, are being utilised in Europe to reorganise and even expand trade by means of bilateral clearing agreements. The mechanism by which these attempts are being made is described in the next chapter, and a later section of this chapter gives a rough measurement of the adverse results of such bilateral agreements upon triangular trade. At this point, attention is directed only to the immediate effects of such policies upon the geographical distribution of trade as shown by the statistics for 1935. The German " New Plan " has led to extensive purchases of raw materials (and in certain cases of foodstuffs) at prices relatively higher than world market prices in countries with which Germany has clearing agreements. Lack of free exchange with which to purchase these raw materials has been overcome by buying them rather more expensively on what amounts to short-term credit. Balances accumulated in blocked marks are later liquidated by exports of manufactured goods, and such exports are facilitated by export subsidies. The net results of these operations are clearly reflected in the German trade statistics. The quantum of total imports decreased by 8.8% in 1935, but the higher prices paid for imports from the clearing countries caused the value to decline only by 6.6%. Exports increased in quantum by 7.8%, but prices were lower, so that export values were only 2.5% higher than in the previous year.

The cost was heavy, but an import surplus of RM. 284 million in 1934 was converted into an export surplus of RM. 111 million in 1935. The greater part of this result was achieved in the second half of the year, when use was made of the accumulated blocked mark balances to press capital goods exports, particularly upon the countries of South-Eastern Europe.

Germany: Annual Movement of the Quantum of Trade.

(Values, in million RM., at 1928 prices.)

A Foodstuffs and live animals.
B Materials, raw or partly manufactured.
C Manufactured articles.



The greatest expansion of German trade took place with a group of countries in South-Eastern Europe — Bulgaria, Greece, Hungary, Roumania and Yugoslavia — German imports from which increased by 29%, while German exports to them increased by 48%. A similar increase took place with Latin-American countries, imports increasing by 27% and exports by 47%. On the other hand, German imports from and exports to other European countries fell off heavily, so that there was a net reduction in her European trade, both on the import and on the export side. Outside Europe, her exports expanded to South America, and with them her imports; but there was such a heavy fall in imports from other non-European countries, particularly the United States, that the total imports fell.

German Imports and Exports, 1934/35.

RM. (000,000's).

	Imports		Exports		Balance	
	1934	1935	1934	1935	1934	1935
Europe	2,560.5	2,470.6	3,188.3	3,057.2	+ 627.8	+ 586.6
Oversea countries .	1,890.5	1,688.1	978.6	1,212.5	− 911.9	− 475.6
Total	4,451.0	4,158.7	4,166.9	4,269.7	− 284.1	+ 111.0

In this redistribution of trade, the creditor countries suffered heavily, as did certain agricultural-exporting countries, such as Australia, Canada and New Zealand. German imports from the United States fell by 36%, and from the three British Dominions by 75%. Imports from Belgium, Czechoslovakia, France, the Netherlands and Switzerland fell by 19% and exports to those countries by 14%. On the other hand, Germany's difficulties in finding free exchange with which to purchase raw textile materials led to increased imports of yarns, and, since such countries as Czechoslovakia, France and the Netherlands endeavoured to liquidate their clearing balances by imposing restrictions on exports to Germany, the yarns were purchased mainly from the United Kingdom, imports from that country rising in 1935 by 25%. The importance of this redistribution of German trade is clear from the following table showing the distribution of German imports and exports in 1934 and 1935. The countries are arranged in order of imports in 1935.

Geographical Distribution of German Imports and Exports, 1934/35.

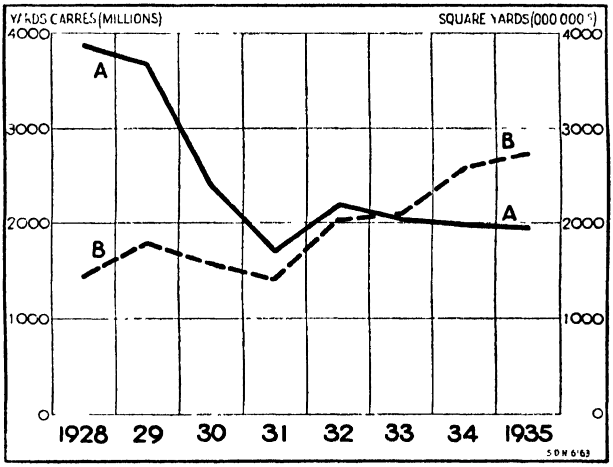
Country	Imports RM. (000,000's)		Percentage change	Exports RM. (000,000's)		Percentage change
	1934	1935		1934	1935	
United Kingdom	205.7	256.2	+ 24.5	382.9	374.9	− 2.1
U.S.A.	372.7	240.7	− 35.6	157.8	169.5	+ 6.8
U.S.S.R.	209.7	215.0	+ 3.5	63.3	39.3	− 37.0
Netherlands	264.1	196.1	− 25.7	481.8	404.2	− 19.5
Italy	184.7	187.5	+ 1.7	245.9	278.3	+ 11.6
Brazil	77.2	176.9	+129.5	74.5	118.6	+ 58.8
France	176.9	154.2	− 8.0	281.7	252.8	− 12.0
Sweden	133.8	152.9	+ 15.0	198.3	206.8	+ 4.3
Argentine	151.5	142.7	− 5.8	87.0	97.2	+ 10.5
Belgium	161.0	126.2	− 21.5	235.9	201.8	− 14.4
Czechoslovakia	162.3	121.4	− 34.0	148.4	130.0	− 15.2
India	134.7	121.3	− 9.9	94.4	111.3	+ 17.1
Denmark	101.2	118.6	+ 17.3	140.2	141.9	+ 1.1
Spain	99.7	118.3	+ 18.6	87.5	105.7	+ 19.0
Switzerland	116.1	114.4	− 1.4	295.3	256.9	− 19.8
China	121.9	102.4	− 15.2	77.7	95.5	+ 23.8
Norway	68.7	93.6	+ 36.0	79.6	87.4	+ 8.7
Turkey	67.5	93.4	+ 28.0	50.9	67.3	+ 34.3
Roumania	59.0	79.9	+ 40.9	50.9	63.8	+ 24.2
Hungary	63.9	77.9	+ 25.0	39.6	62.9	+ 52.0
Austria	66.3	71.1	+ 7.6	106.7	107.9	+ 1.1
Yugoslavia	36.3	61.4	+ 72.0	31.5	36.9	+ 15.3
Poland	53.9	59.4	+ 10.1	38.8	48.0	+ 19.5
Greece	55.3	58.5	+ 6.1	29.3	49.1	+ 57.1
Chile	36.4	52.3	+ 30.5	11.8	32.1	+169.1
Bulgaria	33.7	41.4	+ 24.0	19.3	39.9	+102.0
Finland	42.3	41.1	− 2.5	43.3	49.2	+ 12.4
Australia	105.4	35.1	− 69.9	21.5	25.5	+ 19.8
British Malaya	22.5	26.5	+ 16.8	7.7	9.2	+ 24.3
Portugal	19.3	22.7	+ 16.0	29.2	29.0	− 0.6
Japan	21.7	21.0	− 3.4	79.6	83.2	+ 4.6
Uruguay	28.5	20.7	− 39.6	11.7	11.9	+ 1.8
Estonia	8.2	13.1	+ 63.0	7.3	11.4	+ 56.2
Canada	62.8	12.3	− 80.1	21.7	22.9	+ 5.8
Irish Free State	2.6	6.9	+ 61.0	21.2	13.1	− 38.0
New Zealand	35.7	4.4	− 86.9	3.4	3.9	+ 1.5
Lithuania	15.1	2.6	− 83.1	14.7	6.7	− 54.4

The effects of industrial development in agricultural countries are seen, not only in the increased exports of capital goods from all the great industrial countries, but in the continuing decline of such exports of the simpler manufactures as those of cotton piece-goods. Even from Japan, and still more from the United Kingdom, and particularly in the second half of the year 1935, exports fell off. Imports of raw cotton into Japan in the second half of 1935 were 17% lower in value than the corresponding period of 1934.[1]

Exports of Cotton Piece-goods from Japan and the United Kingdom.

(Annual movement in million square yards.)

A United Kingdom.
B Japan.



In view of the growing restrictions on Japanese exports, the rise in raw-silk prices and increased demand from the United States for that commodity were extremely helpful to Japanese trade. Considerable progress was made, too, in the diversification of exports. In 1929, exports other than raw silk and cotton piece-goods constituted 43.1% of the total; in 1935, this figure had risen to 64.1%. Since these exports cover a wide range of commodities, mainly manufactured goods, and are distributed to a greater number of markets, they are less exposed to specific trade restrictions than are cotton piece-goods. In 1935, they rose by 19% in quantum and by 16% in value.

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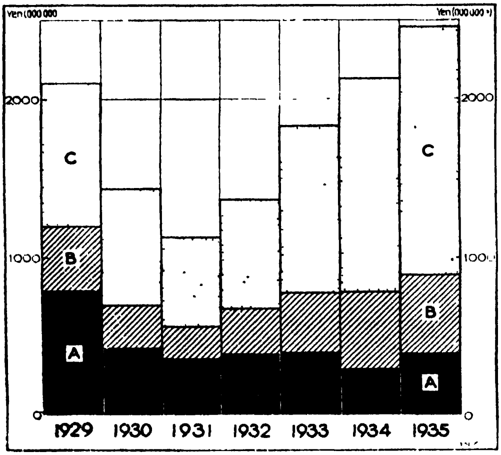
[1] In the first quarter of 1936, both imports of raw cotton and exports of cotton piece-goods were 20% lower than in the first quarter of 1935.

Composition of Japanese Exports.

A Raw silk.
B Cotton piece-goods.
C Other articles.



Space is lacking for an analysis of the trading developments in other countries; but mention must be made of the continued decline of exports from, and of the restriction of imports to, the countries of the gold *bloc*. These developments were most marked during 1935 in France; but were evident also in the Netherlands, Poland and Switzerland, as well as in the colonies of France and the Netherlands. Belgium escaped from this deflationary pressure by devaluation; but Italian exports were steadily declining even before a great number of her markets were closed in November 1935.

The quantum of French imports fell by 5.1% and that of French exports by 10.5% in 1935. Part of this decrease was due to the transfer of the Saar Territory in February 1935[1]; but the bulk of it was caused by relatively high export costs, reduced purchasing power owing to continued deflation and increased import restrictions.

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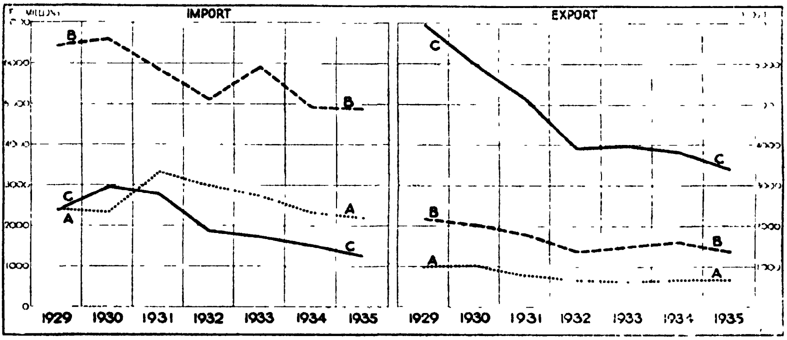
[1] It is estimated that French imports declined for this reason by 400 million francs and exports by 650 million francs, out of total declines of 2,162 million francs and 2,309 million francs respectively.

France: Annual Movement of the Quantum of Trade.[a]

(Values, in million francs, at 1913 prices.)[b]

A Foodstuffs.
B Materials necessary for industry.
C Manufactured articles.



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[a] Excluding precious stones and fine pearls.

[b] For 1934 and 1935, the quantum figures are derived from the official statistics showing the value of trade in 1933 and 1934 at the prices prevailing in 1934 and 1935 respectively. These figures have been linked to the old series of values at 1913 prices, which has now been discontinued.

Apart from the shrinkage of trade in the countries which maintained their currencies at the old gold parity, the spread of exchange and import restrictions across Europe exercised a depressing influence on the trade of the smaller manufacturing countries, whose trade with non-European countries expanded and with European countries shrunk, most of all with Germany.

Total Trade of Austria, Belgium, Czechoslovakia, the Netherlands, Sweden and Switzerland.

Former U.S. gold $ (000,000's).

	Imports		Percentage change	Exports		Percentage change
	1934	1935		1931	1935	
Trade with:						
Nine oversea countries[a] . .	285	290	+ 1.7	172	184	+ 7.0
Germany	358	310	– 13.4	234	191	– 18.5
Other countries .	931	917	– 1.5	905	893	– 1.3
Total	1,574	1,516	– 3.7	1,311	1,268	– 3.3

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[a] The United States, Canada, the Argentine, Brazil, Union of South Africa, Egypt, India, Japan and Australia.

This development is, of course, partly due to the expansion of United States trade, and generally to trade recovery outside Europe. In part, also, it reflects the growing tendency, described in the next section of this chapter, for trade to become canalised in bilateral channels and to take the form of an exchange of manufactured goods against raw materials.

The European agricultural countries, on the other hand, have sold more to Germany and also to the United States, the British Dominions and Colonies have increased their trade with the United Kingdom, the United States and the United Kingdom have shared the developing Canadian market and with Germany have shared the increase of South-American trade. What is lost in this process of redistributing trade by direct exchanges between manufacturing and raw-material exporting countries is the high specialisation which formerly existed between industrial areas — for example, in Western Europe. Moreover, those countries which, like Denmark, developed highly specialised export industries without forming part of any great economic system like the British Empire are left in a difficult situation. Finally, it is obvious that, in the process of bilateral balancing, the export surpluses which formerly were the main media of external debt payments tend to disappear, to the detriment of those creditors whose Governments are not in a position to impound part of the proceeds of an active export balance in order to meet the debt service to their nationals.

In 1935, this trend to bilateralism has been far more important in reshaping the distribution of world trade than the exchange restrictions which in previous years exercised such potent influence. There has, in fact, been a fair measure of exchange stability since the spring of 1935, and it is estimated that about 80 % of the total of world trade (as compared with 40 % in 1933) has been conducted on a stable exchange basis.[1] The remaining 20 % consists of the trade of countries (Belgium, China, Danzig, etc.) which devalued in this period and of those (*e.g.*, Germany, Hungary and Roumania) which, without altering the nominal value of their currencies, took measures partially similar in their effects to currency depreciation. The great bulk of the trade which is subject to exchange restrictions consists of trade between European countries, and it is this trade which is declining.

The following diagram provides clear evidence that both imports to and exports from the countries with depreciated currencies continue to increase; but, in view of the exchange stability of those countries among themselves and *vis-à-vis* the gold-standard countries in 1935, it seems probable that their advantage now consists mainly in their freedom from extraordinary trade restrictions.

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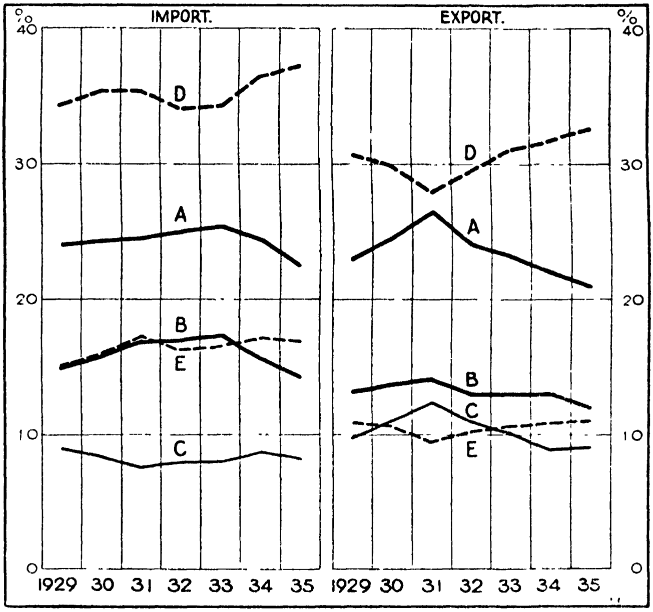
[1] League of Nations, *Review of World Trade, 1935*, Geneva, 1936.

Imports and Exports of Certain Countries as Percentage of World Total.

A Eight countries with stable currencies (including Germany).
B Seven countries with stable currencies (excluding Germany).
C Germany.
D Sterling group.
E United Kingdom (included in D).



Balancing Imports and Exports.

Passing reference has already been made to the importance of bilateral trade in recent years. In order to estimate the changes that have come over the trading world, it is necessary to examine rather more closely this attempt at bilateral balancing of imports and exports between each pair of countries. When international trade was primarily a matter of individual initiative and concern, an extraordinarily complex and flexible network of trade was developed. There were certain collecting and distributing centres for particular products where loosely organised but effective markets grew up. Wheat was sold in organised markets at Chicago, Winnipeg and Liverpool, cotton in New Orleans and Liverpool, diamonds at Amsterdam, furs at Leipzig, raw silk at Yokohama, wool and many other products, including most of the metals, at London as well as in the producing centres. Besides these well-known staple markets, however, there was a multiplicity of trading operations conducted by private enterprise. Dalmatian immigrants dug kauri-gum in the northern peninsula of New Zealand and a market was found for it in Germany;[1] a great export of rough wool found its way from the Asiatic steppes through Tientsin to the carpet manufacturers of Europe.

Not only were the great staple markets and the numerous small trades loosely and flexibly organised by private initiative and competitive dealing, but there was incessant action and reaction — for example, between the commodity markets, the stock exchanges and the foreign-exchange markets. Long-term foreign investment, as well as short-term capital movements, was linked with this worldwide trading organisation. Governments interfered mainly by such methods as the imposition of tariffs which were far less obstructive to trade than the new protectionism has proved to be.

Though much of this system of individual trading survives in many countries, recent developments, particularly in the depression years, have fundamentally changed the structure of trading organisation. The great markets are in some cases divided by national trade barriers, so that price differences — as, for example, in wheat — of a magnitude formerly unknown have become possible between them. The most important development has been the extension of Government intervention into new fields, such as exchange control and quantitative limitation of imports. The connections between international trade and capital movements have, in consequence, been greatly complicated. In some countries, there is organised State control of trading as well as of financial operations;

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[1] The decline of these odd industries as trade has become restricted is illustrated by the export statistics for this fossil gum. The annual exports at ten-year periods have been:

	Weight tons	Value £	Average price £ N.Z.
1914	8,473	497,444	59
1924	5,261	443,576	84
1934	3,209	86,917	27

The New Zealand *Official Year-Book*, 1936, from which these figures are taken, points out (page 395) that " the European market for kauri-gum used in the manufacture of varnish and linoleum, being greatly restricted by the war, new but smaller markets were obtained . . . A system of control of the trade in and export of kauri-gum was provided by the Kauri-gum Control Act, 1925 . . . The Kauri-gum Industry Account showed an accumulated loss of £72,995 at March 31st, 1935, with further losses in suspense totalling £1,588 ".

but, even where trade remains more or less free, private enterprise functions with more difficulty than it did. More and more, trade tends to be planned, directly or indirectly, along the lines of national policy. The first, and in many ways the most important, steps in this direction were taken in order to safeguard the exchange value of the currencies of countries that were exposed to drains on their external balances of payments. An obvious method of limiting such drains, and politically an attractive method in a period of depression, is to reduce imports. Once such reductions are begun, they rapidly spread from one country to another. As will be shown in the next chapter, it is not a long step to their further development into elaborate trade controls, using the new armoury of weapons provided by exchange restrictions, quotas and subsidies.

It is, perhaps, inevitable that import restrictions, once decided upon, should be directed primarily against imports from countries to which the restricting country sells less than it buys. In a period when the struggle for export markets is keen, when every country wishes to export more and most wish to import less, a strong bargaining position may be taken up on the ground of extensive imports not compensated sufficiently by exports. The negotiations for clearing agreements among European countries provide many examples of this; more recently the efforts of the South-American countries to increase their sales to Japan as a compensation for the increased imports of Japanese goods show a similar tendency. Perhaps the clearest example of all is provided by the introduction into Australia in May 1936 of a licensing system designed to reduce the passive balance of imports from the United States, though in this case licences were introduced also for certain Japanese imports, despite an active balance of exports to Japan.

Since the new methods of controlling imports that are described in the next chapter place much more power in the hands of the controlling authorities, it is not surprising to find that, in 1935, considerable further progress was made in the direction of bilateral trade balancing. Flexible exchange rates, quotas, subsidies and even tariffs, directed by centralised authority, have been able to divert trade much more effectively and rapidly than ever before. The statistics reproduced below do not, in fact, give an adequate measure of the extent to which this process of bilateral trade balancing has gone. They are compiled for the bulk (about 90%) of the trade of a number of countries which between them conduct about 75% of the total world trade.

The share in the total trade of each country represented by the active and passive balances that cancel out may, in the majority of cases, be taken as a rough gauge of its triangular merchandise trade (Division III). Each country's balance of total trade, which is offset by the balance of gold and invisible items, such as services and capital transactions, is tabulated (Division II). All trade not represented in these two groups is regarded as bilateral (Division I). Thus, to simplify an example, Australia, in 1933/34, exported commodities worth £90.9 million, and imported goods worth £59.5 million. The total export balance of £31.4 million is placed in Column II below. The remainder is divided into bilateral and triangular trade (using both terms in a narrow sense) by the method described above.

The results of this calculation for twenty-two countries which between them conduct about 75% of world trade is summarised below:

	1929	1933	1934	1935
I. Bilateral Trade (in a narrow sense).				
Percentage of total	71.7	71.3	71.9	74.2
II. Balances of Total Trade.				
Percentage of total	9.9	14.4	13.0	12.0
III. Triangular Trade (in a narrow sense).				
Percentage of total	15.5	14.3	15.1	13.8

It will be seen that, particularly in 1935, the first division — bilateral trade — gained relatively to the second and third. The gain would probably be much greater if account could be taken of two important factors in the situation. It is, in the first place, obvious that part of the second division is bilateral and part triangular trade. In so far as a debtor country, such, for example, as Australia, has an export balance with the United Kingdom (accounting for a large part of its total export balance), this being utilised primarily to pay for invisible imports such as debt service, shipping charges, etc., a large part of its total balance really represents bilateral trade. With the extension of clearing agreements to cover tourist traffic, debt service and similar invisible items of import and export, it is probable that, in recent years, a greater part of these total balances have represented bilateral trade.

In the second place, the German purchases, during 1935, from South America and South-Eastern Europe temporarily swelled the apparent total of triangular trade as here defined. Since, however, the clearing balances thus accumulated are later liquidated by exports to the country in question (thus again swelling the apparent total of triangular trade), the transactions, in fact, offset each other and are strictly bilateral in character, though the offsetting may take place in different years. There is every reason to believe, therefore, that the elimination of triangular trade, and its replacement by balanced bilateral trade between each pair of countries, has proceeded further even than the statistics would indicate.

It is possible that the conduct of balanced bilateral trade along these lines may, in certain circumstances, result in an increased volume of trade being conducted. Some aspects of the canalising of trade into bilateral channels need, however, to be stressed. It is abundantly clear that bilateral trade, directed as it has recently been by currency, and sometimes political, considerations, is not usually as economical as that directed by private interest. Trade conducted by bilateral national bargaining will hardly be able to follow the channels laid down by private interest in seeking out the best bargains. The deterioration of Germany's barter terms of trade in 1935 is clear evidence of the cost of the new methods.

Moreover, the balancing of imports and exports as between each pair of countries eliminates the triangular trade that was necessary to carry payments for past indebtedness. The control of commodity trade and its direction into new channels whereby imports can be paid for by commodity exports renders acute that division of group interests within each national community which has been analysed in another publication of the Economic Intelligence Service.[1] In the past, international lending has gone hand in hand with the development of international specialisation and the growth of foreign trade. The connection of trade and investment was, however, very loose. The payments due on account of debt were effected by roundabout and multiangular trading transactions. It is very unlikely that bilateral trade will provide an effective substitute for such transactions in promoting future investment. In the meantime, it has rendered the payment of existing obligations much more difficult.

Bilateral balancing of trade strikes at many important economic advantages arising from international specialisation and co-operation. For the flexible and effective organisation of worldwide trade by private enterprise, it substitutes a much more rigid and narrower series of bilateral national bargains. Efficiency is lowered as the scope for specialisation is limited.

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[1] *Balances of Payments, 1934*, Geneva, 1935, page 17: " It has become increasingly clear, therefore, that, in the present situation, the financial interests of many countries conflict to a certain extent with their industrial and agricultural interests and, accordingly, that measures affecting their international transactions frequently involve a selection between the interests the country may wish to protect ".

Finally, and more than is commonly recognised, the economic welfare and stability of the modern world has, until recently, been dependent upon the trading mechanism by which the whole body of international economic and financial relations was linked in one continuous chain of trading transactions. Not only were commodities exchanged, but national price-levels were adjusted, and production and investment regulated, by a worldwide trading system with manifold ramifications and interconnections. The breaking of essential links in the chains of transactions has been a major cause of the unprecedented fluctuations of prices, the disorganisation of production, default on financial obligations and piling up of stocks that have been characteristic of the recent years of depression.[1] Attempts to form new trading connections and to dispose of stocks or surplus production in new areas have led, and are still leading, to fresh disturbances of international economic relations. The whole world was organised as a series of closely connected and interdependent markets, the smoothness of whose adjustment led perhaps to an underestimate of their value. The substitution of more rigidly planned and directed systems of independent and closely regulated, if not closed, markets has not eliminated but exaggerated the fluctuations of prices and production, and at the same time has destroyed a large part of the specialised international co-operation by which the rapid advance of living standards has in the past been made possible.

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[1] *Cf.* Folke HILGERDT: " The Approach to Bilateralism — a Change in the Structure of World Trade ", *Index*, August 1935: "As bilateralism particularly renders the supply of raw materials to certain countries difficult, it threatens to lead to an intensified fight for influence upon (or domination of) the undeveloped countries, and thereby to political controversies, which may adversely affect all forms of peaceful collaboration between nations ".

Chapter VII.

THE EVOLUTION OF AUTARCHY.

TARIFF POLICY AND THE MOST-FAVOURED-NATION PRINCIPLE.

The failure of international trade to respond to increasing production and rising prices is a new phenomenon. Even after the war and post-war disturbances of finance and trade, followed as they were by a series of inflations, an increase in the quantum of international trade more rapid than that in the quantum of production was perhaps the chief characteristic of the recovery period. International lending was resumed and with it international trade was quickly restored. The economic recovery that has been proceeding since the middle of 1932 has followed quite other lines. While trade has increased in certain areas, notably where there has been relative exchange stability and a comparative absence of quantitative import restrictions, the quantum of world trade as a whole has increased very slowly. Despite a rather marked increase in the last quarter of 1935, it still remained 18 % below 1929 levels at the end of that year. Moreover, the price-levels of those goods which enter into international trade continued to decline until the second quarter of 1935.

The main reason for these developments is quite clearly to be found in the unprecedented effectiveness of the restrictions now imposed upon the exchange of commodities. The new protectionism is much more effective than the old. In the new systems of trade regulation, tariffs play a much less important rôle than formerly. It is true that the introduction of new tariffs in some countries has been important in restricting the volume of international trade. The adoption of tariff protection by the United Kingdom is an outstanding example. Almost uniformly, also, tariffs have been increased, in many countries frequently and in most substantially. It would not be accurate to deny that these tariff changes have been effective in restricting imports and modifying the currents of trade. The more important factors, however, have been monetary and quantitative measures of restriction. This fact is important in any consideration of proposals to mitigate trade restrictions by tariff negotiations based on the most-favoured-nation principle.

Administration has, in many instances, come to play a more important part than treaties or legislation. Tariffs change frequently enough and bilateral trade agreements are usually negotiated for short terms such as three months; but, in fact, these public arrangements often provide merely the framework within which trade is regulated. Many of the bilateral agreements have secret clauses or understandings; but in any case the rates of exchange at which transactions are carried through, as well as the quotas granted, are the subject of administrative negotiations.

The extent of such centralised administrative control should not, however, be exaggerated. Over a large part of the trading world, and incidentally that part where international trade is now increasing most, exchange rates are uniform for all countries and goods, and limited use is made of quotas, while monetary trade restrictions are infrequent. This area includes the United States of America, the United Kingdom and the British Dominions, the Scandinavian countries, Portugal, China and Japan. These countries, with their colonies, protectorates and mandated territories, accounted for about 52% of the gold value of world trade in 1934 and 54% in 1935. Other factors clearly affect the trade of these countries. For example, they are all countries with depreciated currencies pursuing expansionist monetary policies; but it seems clear that their relative freedom from trade restrictions has facilitated their trade expansion.

The complicated restrictions that have been imposed in most European countries are, however, important, not only because they restrict the trade within Europe, but also because they have broken an important link in the chain of transactions that formerly constituted world trade. Moreover, the influence of their policies extends even into the area of freer trade. Thus, the German policy of subsidised exports has had a profound effect upon the trade of some of these countries in 1935. Bilateral trade and clearing, including debt, agreements have been made, not only among the countries of the new protectionism, but by many of them with countries in the freer trade area, and this development is increasing.

The situation may perhaps be summed up by pointing out that new trading connections, omitting Europe in greater and greater degree, are being formed — for example, between North and South America, among the Pacific countries and within the British Empire. There are two respects, however, in which these new trading connections are complicated. The first derives from the fact that, in order to trade at all with countries of highly developed protectionism, it is often necessary to adopt methods complementary to their systems. The second is to be found in the disturbances caused by the search for new markets within the more limited area of relatively free trade. An illustration of the latter complication is the increased competition of Japanese exports, which has called forth a series of quota restrictions in the British colonies and exchange discriminations in South America. Another illustration is the increased competition of United States exports in South America and the British Dominions. The sudden Australian decision in May 1936 to introduce a licensing system designed mainly to control imports from Japan and the United States shows how the pressure to find new export outlets in place of the closing European markets is likely to call forth new measures of trade restriction in countries that have hitherto not used quantitative methods of restriction On the contrary, Canada has concluded a reciprocal Trade Treaty with the United States designed to facilitate increased trade.

An even more important illustration of the pressure exercised on the markets of freer trade by the spread of restriction is to be found in the measures recently taken to control imports of foodstuffs, such as meat and butter, into the United Kingdom. Not only were important European markets for these products closed to the agricultural-exporting countries of Europe, but a complicated system of export subsidies grew up, with the result that the British market received increasing quantities of cheap imports. It therefore found difficulty in absorbing the increased production of the Dominions and certain South-American countries, with the result that, for the first time in almost a century, resort was had to protective duties on foodstuffs and at the same time quotas were introduced.

At the present time, the world is faced with two conflicting conceptions of international trade. On the one hand, there is a strong tendency for import restrictions, export subsidies, exchange regulation and debt settlements to become centralised and be used as an instrument of national policy. This tendency, the development of which is outlined later, is perhaps most strongly developed in Germany; but it is evident in most European countries. Almost universally, its origins are to be found in defensive measures designed to protect national prices and national production, but during the last five years the national price-systems have diverged so widely and the mechanism of trade regulation has been so much developed that these measures are ceasing to be defensive. The probability that exchange stabilisation, fuller employment and rising prices might lead to abandonment, or at least modification, of the emergency trade restrictions is lessened since these restrictions have become more systematised and have taken the form of positive national policies. Moreover, they accord with the trend of political development in many countries, particularly with the increasing centralisation of State powers and the greater prominence of State as distinct from individual interests and responsibilities.

On the other hand, the system of individual trading across national frontiers, regulated only by tariffs and leaving initiative almost entirely to individual traders, is retained in many important countries and attempts are being made to extend it. The principal effort in this direction has been associated with the most-favoured-nation principle in an endeavour to generalise tariff reductions. The series of reciprocal trade treaties recently negotiated by the United States have resulted in reductions of duties to the benefit, not only of the United States and the other contracting nations, but also to other nations whose Governments afford most-favoured-nation treatment without discrimination. It should be said, however, that minute and particular definition of the commodities on which reductions of duty have been granted, limit in practice the scope of most-favoured-nation treatment.

This contrast between planned and liberal trade organisation, however, is blurred in practice. Planned (and restricted) trade dominates in certain areas such as Continental Europe, while the older, liberal conception still holds the field outside Europe. Whenever trade crosses these areas, and even within the area of freer trade, the present tendency seems to be for the new form of organisation to gain ground, as if by a species of Gresham's Law. Nevertheless, there is a substantial area within which, as a result of bilateral or regional agreements, trade is being extended by the old method of tariff reductions.

The reciprocal trade treaty programme of the United States was described and some of the earlier treaties analysed in the *Survey* for 1934/35. At the beginning of June 1936, the following treaties had been negotiated:

Reciprocal Trade Treaties negotiated by the United States.

	Signed	Entered into force
Cuba	24.VIII.34	3.IX.34
Brazil	2.II.35	1.I.36
Belgium	27.II.35	1.V.35
Haiti	25.III.35	3.VI.35
Sweden	25.V.35	5.VIII.35
Colombia	13.IX.35	—
Canada	15.XI.35	1.I.36
Honduras	12.XII.35	2.III.36
Netherlands and Colonies	20.XII.35	1.II.36
Switzerland	9.I.36	15.II.36
Nicaragua	11.III.36	—
France and Colonies	6.V.36	15.VI.36
Finland	20.V.36	—

So many factors enter into the development of trade between any two countries that it is not possible to isolate the effect of such treaties. During 1935, United States exports increased by 7%; but exports to Cuba increased by 33%, to Belgium by 16% and to Sweden by 16%, so that there is *prima facie* reason to believe that exports to these countries have been stimulated by the concessions made under the treaties. The increase of imports from those countries to the United States was also substantial, the percentages being 33%, 52% and 21% respectively, as compared with an average increase from all countries of 24%.[1] These are the only countries whose trade with the United States was appreciably affected by the new treaties during 1935, since most of the treaties did not come into force until 1936.

The most important treaties recently negotiated by the United States have been those with Canada, the Netherlands, Switzerland and France. The first was the most important for both Canada and the United States, since each is the other's best customer. The concessions on both sides were substantial. Canada reduced duties on 767 tariff items the total imports of which from the United States amounted to over $400 million in 1930. The United States concessions to Canadian imports were more concentrated and affected mainly primary products, such as timber, live-stock, dairy produce, animal fodder and fish. The total import from Canada of many of these items was limited to an agreed quota. On both sides, most-favoured-nation treatment was promised and there were reciprocal administrative concessions, a binding of certain items on the United States free list and a substantial modification of the Canadian system of import valuations.

The Netherlands agreement followed much the same lines as those negotiated with other European countries, except that substantial concessions were made on imports of colonial products, particularly cocoa originating in the Netherlands Indies. Since the Netherlands tariff is in any case moderate, the principal concessions to the United States were larger quotas — *e.g.*, on wheat — combined with a clarification and simplification of the Dutch tariff system. The treaties with Switzerland and France were interesting on account of their combination of reduced duties and more liberal quotas. Switzerland, in return for lower duties on fifty-nine categories of goods, notably cheese and watches, reduced its duties on fruits, jams and certain machines, and increased the United States quotas of wheat, lard, jams and automobiles.[1] France made concessions principally in regard to the tariff on automobiles and the quotas of imported pears and apples. In return, the United States reduced by the maximum amount of 50% the existing duties on wines, champagnes, brandies, cordials and liqueurs, while there were smaller reductions on lace, cheese and other articles. In all these treaties the most-favoured-nation principle was reaffirmed and reductions of duties extended to all countries save those practising discrimination in their commercial policy. There has, however, been a considerable attenuation of this principle in recent years, not only in the case of regional agreements such as the preferential agreements within the British Empire,[2] but also in the administration of exchange premiums and quota allocations.

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[1] Shortly before the Belgian treaty came into force, the belga was devalued; but the United States did not invoke the clause of the treaty enabling it to reconsider the agreement in the event of a major monetary change.

An official survey made in the United States at the beginning of 1936 notes that very few of the European tariff systems were liberalised during the preceding year.[3] Belgium negotiated concessions with France, Germany and Italy, as well as with the United States; Sweden with France, Spain and the United States; Poland with Canada, Germany and the United Kingdom[4]; Norway with France; the Netherlands and Switzerland with the United States. Long-standing tariff wars between Germany and Poland [5] and between Czechoslovakia and Hungary were brought to an end. Most of the disputes between France and a number of other countries regarding the import "turnover" taxes have been settled and Portugal removed discriminatory duties against goods imported in foreign ships. On the other hand, the Franco-German commercial treaty of 1927 was denounced in July 1935, and, though it was subsequently prolonged, increased trade restrictions were imposed on both sides. The tariff policy of the United Kingdom underwent little change, though there were numerous amendments of the tariff in detail, and the effort to secure a closer approach to bilateral balancing of trade was further advanced by treaties with the Irish Free State, India, Poland, Italy, Uruguay and Turkey. There were downward tariff revisions in Canada (including a substantial modification of the system of import valuations) and treaties were entered into with France, Poland and several Latin-American countries. During 1935, also, Australia reduced its tariff substantially; but in May 1936 increased duties were announced, together with a licensing system mainly affecting imports such as cotton goods and motor-cars from Japan and the United States.[1] Japan almost immediately retaliated by invoking the Trade Safeguarding Act against imports from Australia, while the United States removed Australia from the list of countries entitled by most-favoured-nation treatment to receive the tariff concessions negotiated in its reciprocal trade treaties.

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[1] The quota for wheat, which had previously been nil, was fixed at 1,180,000 quintals, while Switzerland agreed to buy in the United States 90% of its imports of lard.

[2] Reservations are made in the regional agreements concluded among the Scandinavian, Baltic, Little Entente, Balkan Entente, and Iberian groups of countries, and also by the Union of Soviet Socialist Republics in respect of treaties with neighbouring countries, both in Europe and in Asia, by Portugal for treaties with Brazil, by Spain for treaties with South-American States and by various South-American States for treaties with other South and Central-American States.

[3] "Tariffs in 1935", Commerce Reports, February 15th, 1930.

[4] On the other hand, Poland resorted to exchange control and fresh import restrictions in May 1936.

[5] A fresh dispute concerning the payment for traffic across the Polish corridor broke out in February and was provisionally settled in May 1936.

During 1935, the chief steps taken to increase tariff obstacles to international trade were the introduction in South Africa and in many South-American countries of multiple tariff systems. South Africa adopted a triple tariff providing for a general scale of duties with British preferential reductions on the one hand, and additional duties of 5% to 10% on selected imports from countries with which South Africa has no commercial treaties. The use made of these maximum duties has up to the present been confined to a small number of commodities from a few countries. The multiple tariffs adopted in Cuba, Haiti, Guatemala and Ecuador are being used in an effort to achieve closer bilateral trade balances. Thus, several European countries have recently negotiated treaties with these South-American States providing for larger purchases of their exports in a stated proportion of the value of imports taken by them. On the other hand, pressure is being brought upon South-American countries to accept larger imports from those European countries and from the United Kingdom whose purchases of raw materials and foodstuffs are large. There is thus a strong tendency towards the planning of more evenly balanced bilateral trade. In the effort to achieve this result, new derogations have been made from the most-favoured-nation principle and a new blow has been struck at multilateral trade.

The chief effect of this development has been a progressive restriction of the new outlets sought by the Japanese export industries. In addition to the quota restrictions imposed in Egypt, India and certain British colonies, as well as the Netherlands Indies, the expansion of Japanese exports to South America appears to have been arrested in 1935.[2] Efforts were made to divert Japanese purchases of raw materials, particularly wool and cotton, to countries where Japanese exports exceeded imports; but, like all attempts at bilateral trade balancing, these efforts encountered great obstacles. It was difficult to reconcile the conflicting interests of Japanese importers and exporters.[1] Special arrangements were concluded with Brazil for the purchase of raw cotton.[2]

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[1] *Cf.* list of goods placed under licence in *The Times*, London, May 23rd, 1936.

[2] Quota restrictions, particularly on Japanese cotton piece goods, were imposed in a number of British Crown colonies in the middle of 1934. Imports were restricted to the average level of 1927-1931. The East-African colonies, the mandated territories, Aden, Gibraltar and Hong-Kong were not included in this development. *Cf. The Times Trade and Engineering Supplement*, May 1936.

The general development of trade policy therefore appears to be clear. Apart from the United States series of reciprocal tariff bargains based upon the most-favoured-nation principle, there has been little attempt to extend world trade along traditional lines. The new protectionism in Europe, widespread derogations from the most-favoured-nation clause, and an almost universal attempt to secure a closer approximation to bilateral trade balancing have on the whole riveted the fetters on international trade and, in particular, have further limited the possibility of multiangular exchanges. Within limited areas, regional agreements have achieved some trade expansion; but the former worldwide specialisation continues to be restricted by the negotiation of limited agreements. Inevitably, a greater degree of State intervention and national policy enters into the conduct of international trade. The new mercantilism thus developed lays greater stress upon trade balances and intensifies the conflict of national interests, not only in commodity trade, but in every other aspect of international economic relations.

Bilateral and Regional Agreements.

For some years there has been no doubt of the strong tendency for trade negotiations to take the form of bilateral as opposed to multilateral agreements. The only multilateral discussions since the Monetary and Economic Conference of 1933 have been on a regional basis, as at the meetings of the Pan-American Union at Montevideo (December 1933) and Buenos Aires (May-June 1935). Other such regional discussions were held among the countries of the gold *bloc* in October 1934 and the Balkan States, Scandinavian countries and Danubian countries in 1935 and 1936. Moreover, as has been shown, the attempt of the United States Government to initiate tariff reductions by bilateral treaties containing most-favoured-nation clauses has met with a limited response. Wherever the new protectionism is highly developed, as it is in most Continental European countries, bilateral conversations tend to be almost continuous. Within the framework of commercial agreements, which are revised at frequent intervals, the national officials responsible for the administration of exchange control, clearing and import control systems must necessarily maintain contact with their opposite numbers in other countries. Indeed, the complexity of many control systems is such that separate negotiations are necessary for practically every major transaction.[1]

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[1] *Cf., e.g., Manchester Guardian Commercial*, March 27th, 1936, for a discussion of the trade relations of Japan with South Africa.

[2] *South American Journal*, May 9th, 1936.

Apart from the more closely controlled trade that is carried on in this way, it is of some interest to note that even regional agreements have taken the form of complementary series of bilateral trade treaties among the Governments concerned. Perhaps the outstanding example of such agreements in recent years has been the series of treaties negotiated among member States of the British Commonwealth at the Ottawa Conference in 1932. These treaties expire in August 1937, but contain a clause providing for their prolongation subject to six months notice on either side. The agreements have been subject to criticism both by industrialists in the United Kingdom and by many interested groups in the Dominions and India. Still stronger criticism has come from other agricultural-exporting countries, such as Denmark and the Argentine, and also more recently from the United States and Japanese manufacturers, who are likely to be affected by the introduction of the new licensing system in Australia. In May 1936, the Indian Legislative Assembly passed a motion calling upon the Government to give the requisite notice for terminating the treaty with the United Kingdom. The Canadian treaty with the United States which came into force at the beginning of 1936 granted the latter for many imports the benefit of the intermediate tariff, which is substantially lower than the general tariff under which such imports were admitted at the time when the Ottawa agreements were signed. The plan of the New Zealand Government to guarantee a fixed price to all exporters of dairy produce also creates a new situation. The Minister of Marketing announced on June 17th, 1936, that he would be prepared to conclude a reciprocal trade treaty with the United Kingdom giving the whole market for cotton goods to that country. Negotiations have proceeded in the early months of 1936 between representatives of the United Kingdom and the Dominions in preparation for modification of the existing agreements.

Before the expiry of the Ottawa agreements, however, it will become necessary to review the most important bilateral agreements entered into by the United Kingdom with foreign countries. The Danish agreement expired on June 20th, 1936,[2] and the Argentine agreement will expire in November 1936. The former has resulted in an increased value of British exports to Denmark and a reduced value of British imports of Danish goods, particularly bacon. The Danish bacon industry has been reorganised and is now on a reduced but relatively more profitable basis. In consequence, there has been a distinct tendency for Denmark to turn to the production of manufactured goods, such as electrical equipment. The whole problem presented by both these important agreements is complicated by the development of agricultural protection in the United Kingdom itself. [1]

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[1] The measures of mutual support envisaged as a consequence of the prohibition of imports from Italy under Article 16 of the Covenant did not give rise to special agreements, adjustments being made by administrative changes in respect of quotas, etc.

[2] The Agreement was prolonged on June 22nd, 1936.

The negotiations with the Argentine provide an interesting illustration of the diverse elements which enter into such bilateral trade bargaining. Commodity trade shows a great, though reduced, passive balance with the United Kingdom. The treaty negotiated in August 1933 contained provisions, *inter alia*, for a sterling loan which enabled the Argentine to liquidate about £10 million of blocked short-term debts. Since this operation was concluded, exchange has been available for current transactions, but it is a prime consideration in the negotiation of any new agreement that a sufficient balance shall be obtained from Argentine exports to enable her to avoid any future exchange stringency, while at the same time continuing to maintain the full service of external debt.

The trade situation in the States of Central Europe affords a striking example of the confusion of economic and political forces in recent months. The Little Entente countries maintain close political and economic relations. Austria and Hungary, since the signing of the Rome Agreements in May 1934 and still more since October 1935, have maintained close trading relations with Italy. The vigorous new trade policy of Germany has cut across both groupings. Policies of national self-sufficiency have been followed in all these countries so that agriculture has been extended in formerly industrial countries and manufactures in countries that up till recently were mainly agricultural. In all of them except Austria, exchange control, for the most part of an extremely complicated character, is exercised, and there is a network of trade treaties and administrative understandings to be taken into account. For the central area, which under the Austro-Hungarian Empire was an economic unit, centrifugal

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[1] The following table (*Statist*, May 16th, 1936) shows the proportions of imports to total supplies of certain classes of foodstuffs in 1934:

	%		%
Beef and veal	51	Butter	80
Mutton and lamb	57	Cheese	67
Bacon and ham	81	Wheat flour	84
Total meat	53	Fruits and nuts	72
Eggs	38	Vegetables	10
Fish	19	Sugar	75

Cf. also Sir John Boyd ORR: " Food, Health and Income ", page 54.

rather than centripetal forces are dominant. Trade between the five Danubian States (Austria, Czechoslovakia, Hungary, Roumania and Yugoslavia) has fallen since 1929 by over 70%, while their combined total trade has fallen only by 65%. Some improvement in this respect took place in late 1935 and early 1936, when commercial treaties were signed between Czechoslovakia on the one hand and Hungary and Austria on the other.

The Rome Agreements, reinforced by reciprocal support after November 1935, have stimulated increased trade between Italy, Austria and Hungary.[1] This increased value was caused by a rise in prices as the Italian price-level rose. The actual quantum of trade seems to have decreased. Trade increased with other countries, however, and the net effect of these agreements does not seem to have been very great. Austria's purchases from Italy, in the first quarter of 1936 as compared with the first quarter of 1935, fell from 5% to $4^1/_8$% of her total imports and Hungary's from 12% to 10%, while Austrian exports to Italy rose from 14% to 19% of her total exports and Hungarian from 16% to 17% of her total.

By far the most important influence on European, and to a somewhat less extent on Central-American, trade during 1935 and the first half of 1936 was the new German trade policy. In order to understand the most recent developments, it is necessary to recall the earlier stages by which Germany moved steadily towards autarchy. From 1925 onwards, agricultural protection in Germany was a disturbing factor in international markets.[2] With the accession to power of the National-Socialist Government in early 1933, this protection was intensified. It is, in fact, a fundamental article of the National-Socialist policy that "the German people shall be nourished by the products of the German

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[1] Imports from and exports to Italy in the first quarter of 1935 and 1936 were as follows:

Old gold $ (000's).

	Imports		Exports	
	1935 I-III	1936 I-III	1935 I-III	1936 I-III
Austria.	1,463.1	1,437.4	2,834.4	3,979.6
Hungary	1,580.7	1,716.9	2,304.7	2,935.8

Imports from and exports to all other countries in these periods were:

	Imports		Exports	
	1935 I-III	1936 I-III	1935 I-III	1936 I-III
Austria.	28,917.1	32,630.7	19,994.7	21,052.2
Hungary	12,851.4	16,833.4	14,714.6	17,023.2

[2] *Cf. World Economic Survey, 1931/32*, Chapter X.

soil ".[1] While it is recognised that the lack of certain raw materials renders complete self-sufficiency impossible, innumerable official statements might be cited advocating autarchy as " the first vital right of every nation to make of its economy a fortress where shelter may be found from hunger and thirst in the event of commercial, monetary or military troubles ".[2]

Other factors have supervened also. The great programme of rearmament and work creation that has been financed by short-term borrowing has been accompanied by close surveillance of the external balance of payments.[3] The greater part of Germany's external debt service has fallen into default, and those creditor Governments which had active trade balances with Germany have instituted or threatened to institute clearing agreements in order to collect at least part of the debt service due. At the same time, a closely centralised control over imports has been instituted with the object of conserving the scanty amount of foreign exchange available for necessary purchases of raw materials.[4]

During 1935 and 1936, a great drive was made to increase German exports. With three-fifths of German trade conducted by means of clearing agreements and another fifth through barter arrangements, the amount of free exchange available was not great and stocks of raw materials were low. The essential raw materials for industry, and in times of shortages certain foodstuffs, had to be imported. Gold reserves were greatly reduced, but from the third quarter of 1935 were again depleted.[5] The obvious method of securing a greater volume of imports was by increasing exports; but production costs were relatively high in Germany and many external markets were either limited by quota systems or subject to closely regulated clearing agreements. Devaluation of the mark was rejected as a solution, not only for domestic psychological reasons in a country which had once experienced inflation, but also because it was doubtful whether it would not be met by reduced quotas and because the prices of imported raw materials would rise and external debt payments would demand larger budgetary allocations. Two main methods of export stimulation were chosen. In the first place, import purchases were switched in great degree to countries with which Germany had clearing agreements.[1] Raw materials were bought in large quantities at relatively higher prices[2] than those ruling in word markets and the blocked balances in these clearing accounts accumulated rapidly till they were authoritatively estimated in April 1935 to amount to RM. 500 million.[3]

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[1] *Cf.* Vollmar FLESSNER: " Der Aussenhandel im neuen Deutschland ", Munich, 1935, page 13, quoting an address by Herr Hitler to peasants in 1932 — " The condition of the German State's independence is the possibility that the German people shall be nourished by the products of the German soil ".

[2] *Ibid.*, page 17, quoted from Werner DAITZ, Assistant-Director and Chief of the Foreign Trade and Shipping Section of the Ministry of Foreign Affairs.

[3] Many calculations are available of the success which has attended the German attempt to increase self-sufficiency. Thus, in 1935 as compared with 1934, national production of raw materials was increased by 10 %, while imports were reduced by 5 %. New substitute materials to which attention has recently been drawn are synthetic rubber and small Diesel-oil motor-cars. Germany has also entered the whaling industry and has greatly increased its fishing fleet. Food imports fell from RM. 4,364 million in 1929 to RM. 1,312 million in 1934 and RM. 1,279 million in 1935, the greatest decline being in commodities which can be produced or replaced by German products, the most important of these being wheat. Net imports of wheat and rice for human consumption decreased from 3,710,000 tons in 1927 to 1,423,000 tons in 1932 and 527,000 tons in 1935. Wheat imported for animal consumption decreased in these years from 4,018,000 tons to 1,200,000 and 578,000 tons.

[4] The restrictions on imports have sometimes had curious results. Eight farmers whose land lay along the frontier between Germany and the Netherlands taught their hens to smuggle unlaid eggs. The hens were fed on the cheaper grains in Dutch territory; but the nests were placed and the eggs laid in Germany. The Customs officials estimated that two million eggs were thus smuggled across the frontier without paying duty. The farmers received five months' imprisonment. *News-Chronicle*, London, December 16th, 1935.

[5] After slowly rising from RM. 79 million at the end of 1934 to RM. 95 million in September 1935, the gold reserves of the Reichsbank fell to RM. 72 million in June 1936.

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[1] *Wirtschaftdienst Neue Folge* XX, page 1217, September 6th, 1935, gives the following calculations of imports from countries divided into three groups:

A. Former primary markets in which Germany used to buy most largely and where prices are relatively low.

B. New primary markets where purchases are now made by barter or clearing agreements.

C. Secondary markets or entrepôts.

RM. (000,000's)
First half of year

	1934			1935		
	A	B	C	A	B	C
Raw cotton	140	10	2	57	78	12
Raw wool	163	4	7	78	13	7
Wool tops	17	—	44	10	2	54
Ores	57	4	15	67	6	29
Metals	90	1	49	57	2	43
Total of raw materials	477	19	117	269	101	145

[2] *Vierteljahrshefte zur Konjunkturforschung* (Heft 3, Teil A, 1935) gives the following prices in RM. per ton for imported raw materials, without allowing for quality:

Merchandise	1933	1934	1935 I-VI	1935 VII-IX
Wool (*a*)	1,345	1,795	1,524	1,747
(*b*)	1,540	1,833	1,692	1,902
(*c*)	1,218	1,756	1,264	1,526
Cotton (*a*)	649	651	797	848
(*b*)	490	592	898	964
(*c*)	658	663	708	780
Mineral oils (*a*)	48	44	44	42
(*b*)	54	57	53	55
(*c*)	47	43	41	38
Copper (*a*)	494	423	357	382
(*b*)	526	426	357	383
(*c*)	444	421	357	380

(*a*) Total imports.
(*b*) Imports from countries with barter or clearing agreements.
(*c*) Imports from other countries.

[3] *Statist*, May 9th, 1936, reporting an address by Dr. Blessing at the annual meeting of the Rhenish Board for Foreign Trade at Cologne. An unofficial estimate (*Neue Zurcher Zeitung*, May 5th, 1936) gave the following figures by countries as for the end of March 1936:

RM. (000,000's).

Netherlands	99	Greece	40	Belgium	10
Czechoslovakia	62	France	39	Norway	5
Switzerland	52	Yugoslavia	25	Finland	4
Poland	47	Hungary	25		

A great effort has been made to liquidate these balances by selling manufactured goods against them. Despite their higher prices, German exports have been greatly expanded in many European and Central-American countries. Greece has bought luxury articles, railway materials and coal; Yugoslavia, railway and bridge materials and other capital goods. Statistics were given in Chapter I showing the extent to which German exports had increased to several European countries.[1] At the moment of writing in June 1936, Dr. Schacht is engaged upon a round of visits to Central and South-Eastern European countries, and new arrangements are being made for barter transactions involving the export of German capital goods.

It may be difficult to continue expanding exports in this way, since many of the countries affected have taken steps to check the accumulation of blocked mark balances in future.[2] France has attempted to liquidate her claims on other countries by more liberal import quotas and, in the case of Germany, by a sharp restriction of exports. In order to reduce blocked balances and to secure more evenly balanced trade, many new clearing agreements were made in 1935. Thus Germany negotiated agreements with the Argentine, Brazil, Estonia, Iran, Poland, Portugal, South Africa and Turkey. The United Kingdom negotiated a "payments agreement" with Spain on January 6th, 1936. There are "payments agreements" also between the United Kingdom on the one hand and Turkey, Roumania and Hungary on the other. Thus, the clearing system tends to spread rather rapidly and with it goes the decline of triangular trade described in the preceding chapter. Thus the German official spokesman previously cited, after emphasising the necessity for international currency stabilisation, debt settle-

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[1] That such purchases are not confined to European holders of blocked balances in Germany is indicated by the statement of the President of the Standard Oil Company of New Jersey at its annual meeting in New York on June 2nd, 1936. He stated that the company had first of all bought ships with its blocked marks, but had recently acquired forty million mouth-organs (*The Times*, London, June 3rd, 1936).

[2] German exports have recently been classified as follows (*Frankfurter Zeitung*, May 31st, 1936):

	RM. (000,000's)			Percentage of 1933 exports	
	1933	1934	1935	1934	1935
I. Netherlands, France, Switzerland and Sweden	1,551	1,257	1,120	81	72
II. United Kingdom, Irish Free State, Belgium and Japan	776	720	671	93	86
III. European exchange-control countries which have clearing agreements with Germany	860	896	1,053	104	122
IV. Other European countries which have clearing agreements with Germany	305	269	293	88	96
V. Non-European countries which have clearing agreements with Germany	336	325	409	96	122
VI. Other countries	530	442	537	83	101

ments and the restoration of international credit, went on to state that, "even after fulfilment of these conditions, the new economic order of the world would be different from the past; especially the system of international division of labour would have lost much of its importance, and the 'most-favoured-nation' principle would be replaced by preferential arrangements among countries economically dependent on each other, while, in international credit, planning and State control would play a decisive part."[1]

The second method that has been employed in the German "new plan" of export stimulation is not peculiar to Germany, but has been developed there on a larger scale and with an ingenuity and effectiveness greater than hitherto known. It consists of various monetary arrangements and direct export subsidies. By these, import orders are directed to new markets.

The administration both of the monetary measures and of the export subsidies is highly centralised. The latter may be briefly summarised first. They are based on a law of June 29th, 1935, providing for industrial taxes. A turnover tax of 2% or 3% has been imposed on the home sales of industrial undertakings and also on gas and electricity consumption. The annual product of this tax is RM. 700-800 million and this sum is used by the Golddiskontbank to subsidise exporters. After a sharp struggle in May 1936, it was renewed for another year. In essence it is a levy on the domestic market in order to subsidise exports the proceeds of which may be used to replenish depleted stocks of raw materials.

The monetary methods of promoting exports are more difficult to summarise. Essentially, they depend upon the existence of differential exchange rates and of various blocked mark accounts. The tourist mark is well known. Visitors to Germany may buy at a rate far below the official parity the right to draw upon blocked mark balances in order to pay their personal expenses in the country. For example, a tourist on a German ship may buy orders which may be used for purchases on the ship, and these orders eventually are cashed against blocked mark balances. In much the same way, special blocked accounts, such as the Compensation or Aski Mark Account (Ausländer Sonderkonto für Inlandszahlungen) are continually replenished by German import purchases from South-American and some European countries, such as the Netherlands, under compensation agreements. The Compensation or Aski marks thus made available are sold to importers of German goods at discounts (about 20% to 35% below official parity in 1935) varying with the state of trade between Germany and the country in question. There may, indeed, be several Aski mark accounts with a single country for different classes of merchandise. The first step in the process is the German purchase at advantageous prices of considerable quantities, for example, of coffee from the Central- and South-American coffee States. In 1935, imports from eight of these countries increased from RM. 334 million to RM. 463 million. There is evidence that the amount of coffee purchased was greater than the German domestic demand and some of it was sold on other markets in order to get free exchange for more necessary raw-material imports. The price paid for the coffee or cotton imports is high enough to give the South-American exporter the world price even though he has to dispose of his Aski marks at a discount. The opportunity to buy German manufactures with these cheap marks has greatly increased German exports to these countries. Thus, to the eight countries referred to above, German exports increased from RM. 216 million in 1934 to RM. 320 million in 1935. Peruvian imports from Germany were doubled in 1935. In many commodities, German exporters are thus enabled to underbid those of other countries, even Japan.[1]

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[1] *Statist*, May 9th, 1936, *op. cit.*

In June 1936, the United States retaliated against this form of German competition by imposing countervailing dumping duties ranging from 22½ % to 56 % on a large number of German exports to the United States. Germany had already been excluded from the most-favoured-nation treatment accorded in the United States reciprocal trade treaties, and negotiations for an agreement between the United States and Germany were prejudiced by this decision.[2]

As will be shown in the next section, there is a clear and strong tendency for subsidies to be met by subsidies and exchange discrimination by exchange discrimination. Examples of subsidies and exchange discrimination in other countries are given in the following section.

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[1] The following table shows the increase of German exports to overseas countries in 1935 as compared with 1934:

	RM. (000,000's)			
	Imports		Exports	
	1934	1935	1934	1935
Europe	2,561	2,471	3,188	3,057
Overseas countries	1,891	1,688	979	1,213

[2] An agreement was reached in August 1936, by which the United States removed the countervailing dumping duties. *The Times*, August 8th, 1936.

THE MECHANISM OF RESTRICTION.

The following pages give an outline of some of the principal methods of trade regulation in use at the present time. For convenience of exposition, they begin with an account of the recent evolution of direct quantitative restrictions of imports by such means as quota and licensing systems, and continue with brief summaries of the methods of monetary manipulation that have been developed in exchange-control countries. Illustrations are given from the experience of one country or another; but it is essential to stress the interaction and interdependence of both quantitative and monetary measures. Tariff duties also enter into play and at the present time have such flexibility that they can readily be used as an effective instrument of national trade policy. The isolated examples cited below to illustrate different aspects of trade regulation must not be taken as descriptions of policy in the countries concerned. Adequate description of national policies requires much fuller treatment in every case than can be given here.

Moreover, the mere outline of different forms of restriction which follows can give but a very imperfect idea of the administrative complexity of national trade policies in actual practice. To appreciate this fully, it would be necessary to consider the position of a merchant trying to do business with or from an exchange-control country. The mere fact that it has been necessary to create a new bureaucracy to handle not only trade negotiations but also actual transactions gives an indication of administrative difficulties and delays and costs. This bureaucracy consists, not only of centralised expert staffs who, in fact, direct the course of trade and have the ultimate power of decision in specific transactions, but also of regional and functional sub-organisations, such as new divisions of the chambers of commerce or trade associations through which individual applications are forwarded to the central body.[1] Even private individuals receiving gifts by parcel post must often find the proper local authority, purchase and fill in the requisite forms, and forward them through the proper channels to the central authority. Permission to import may be refused, or granted only upon payment of a penal duty. In any case, delay, uncertainty and expense are added to the normal risks of trade. In the long run, the trade which is allowed to cross the frontiers becomes a matter of bureaucratic decision. It is obvious that national interests gain priority over consumers' choices.

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[1] *Der Deutsche Volkswirt*, July 10th, 1936, contains an article drawing attention to a circular issued by the Minister of Economy, regulating the " most modern profession " in Germany, that of " Adviser on Exchange-control Questions ". These questions are now so complicated that business firms need specialist advisers.

The first stages in the development of quantitative import restrictions were described in earlier *Surveys*. Faced with intense competition from goods imported at low prices from countries with depreciated currencies, those countries which retained their currencies absolutely or nominally at gold parity hastily erected barriers more effective than any tariff increases could possibly be. The most usual procedure adopted was the institution of licensing systems which rapidly led to the fixation of quotas; but other devices such as milling regulations and increased stringency in the administration of veterinary restrictions were also used. For the most part, the earliest quotas were imposed on agricultural products. Imports of food into France increased by almost 50% in 1931 compared with 1930 and, since prices fell, the increase in quantity was far greater. [1] There seems to have been an impression that the emergency would pass quickly, perhaps by prices rising in terms of the depreciated currencies. The legal basis on which quotas were first built was sometimes slender, but some protection for local industries had to be devised hurriedly. In France, an article in the Customs Code designed primarily to give power to affect reprisals against discriminatory treatment of French exports was used.

In point of fact, the emergency did not pass quickly. Prices did not rise, but at first fell more sharply in the exporting countries and then recovered only slowly. The quotas, by maintaining high domestic prices and encouraging domestic production, widened the gap between the protected and world markets. Other factors, however, entered into their maintenance. In many countries, a precarious balance of external payments was maintained only by rigorous import and exchange controls, in which quotas played a large rôle. Their application was steadily extended, not only to agricultural, but also to industrial goods. The methods of quota allocation were at first often left to be worked out by Chambers of Commerce or trade associations; but, as the system became consolidated, control shifted to the central Government organisation, working, in exchange-control countries, in close relation with the central bank.

This strong tendency to centralisation is the first of the recent developments which needs to be noted here. As it grew, quota policy became an instrument of commercial negotiation even more important than, though often combined with, tariff bargains.[2] The increased flexibility of quota arrangements and the possibility of allocating supplementary quotas or transferring them from one country to another involved the necessity of abandoning any pledges of non-discrimination in quota treatment and thus struck a heavy blow at most-favoured-nation treatment in general.

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[1] *Cf.* F. A. Haight: "French Import Quotas", London, 1935, for a description of the French system up to the end of 1934.

[2] *Cf.* "La politique commerciale de la France en 1935", Société d'études et d'information économiques, Paris, 1936.

The second tendency that needs to be emphasised is the vital connection that has developed between the allocation of quotas and the changing methods of exchange control. This connection was demonstrated by the prompt measures taken to institute complete import control when exchange control was introduced in Poland on April 27th, 1936. For some years, a large proportion (about 80%) of imports had been subject to control; but with exchange restrictions in force it was deemed advisable to establish complete import control. The commercial treaty with France was denounced by Poland as from July 10th, and the agreements with Switzerland and Italy were expected to be revised also. As in all cases where exchange and import controls are at work, attempts were made by bilateral negotiations to reduce passive import balances and so strike a further blow at triangular trade.

Yugoslavia also created an import control system closely linked with exchange control in April 1936. The main object was stated to be the reduction of blocked balances abroad, mainly in Germany, by increasing quota allocations to importers who could utilise these balances.[1] Such developments not only make necessary a greater degree of planned trade within the country imposing import control, but also place other countries in the dilemma of following suit and concluding a clearing agreement or losing their trade by having it transferred to countries which have such agreements with the country in question. In any case, triangular trade is crushed out.

Despite a more liberal tendency in some countries during 1935, quantitative restrictions on the whole increased. In France, no new quotas have been created since the middle of 1935 and a certain number of industrial quotas have been abolished; but, on the other hand, agricultural quotas have not only been maintained, but have actually been stiffened in certain cases.[2] Committees formed to revise the tariff and abolish quotas where possible or replace them by higher tariff duties have not had much success, especially since the tendency to incorporate, not only commodity trade, but tourist traffic, debt service and clearing balances within the scope of trade agreements has become more pronounced. This tendency, concerning which more is said below, has been a marked feature of developments in 1935.

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[1] *Agence économique et financière*, April 9th, 1936.

[2] *Cf*. M. Julien DURAND in the Report for 1936 of the Budget of Commerce and Industry: " In regard to agricultural products, the Government has continued to follow its former policy of defending the French market. It has even strengthened it by reducing the size of certain quotas. On the other hand, it has tried at all costs to encourage the export of certain agricultural products, especially wheat. This policy of agricultural protectionism has helped to limit our markets in certain countries, notably Denmark and Poland, which balance French imports against their exports to France and has at times even replaced our former industrial exports by exports of wheat."

There are few European countries which in 1936 were "entirely free from some form or degree of import quota, licence requirements, or exchange control, or were without agreements of a compensating or clearing nature with some other countries, whether negotiated upon their own initiative or entered into under pressure from the other side. The extreme form of such regulation was reached in Germany and Italy, where practically all imports and many classes of exports are under strict, complicated and often arbitrary licence and exchange controls."[1]

The tendency previously noted to regulate imports by issuing a licence for each transaction "without periodic announcement of definite quotas or apportionment among the usual supplying countries or importing firms" has been ingeniously used in many countries as a new source of taxation. Import licence taxes or similar imports are sometimes assessed *ad valorem* uniformly, as in Italy, or varying, as in France, with the commodity in much the same way as, and often exceeding, the tariff duties. These fees, like the conditions of importation, are apt to change with disconcerting frequency and be used as a potent means of directing trade as required by what is deemed to be the national interest for the time being.

The spread of quantitative restriction to new areas must also be mentioned. Besides the quotas against Japanese goods introduced into many British colonies in 1934,[2] increased economic preference was introduced both in regard to French and Dutch imports from their colonial empires and to colonial

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[1] Commerce Reports, February 15th, 1936.

[2] The effectiveness of these quotas in respect of Japanese cotton piece goods in 1935, which was the first full year of their operation, may be judged by the following table. Quotas are not in force in British East Africa and Hong-Kong.

Export of British and Japanese Cotton Piece Goods into the Principal British Colonies, 1933-1935.

Square yards (000,000's).

	British			Japanese		
	1933	1934	1935	1933	1934	1935
British West Africa[a]	102	69	164	—	7	8
British East Africa	10	9	10	—	78	88
British Malaya	26	29	30	88	91	47
Ceylon	10	12	29	—	41	5
Hong-Kong	19	5	6	29	36	49
British West Indies[b]	19	22	35	.	5	5

[a] Includes Sierra Leone, Gambia, Gold Coast and Nigeria, in British, but only Gold Coast and Nigeria in Japanese statistics. [b] Japanese statistics for Jamaica only.

imports from France and the Netherlands.[1] Some licensing and quota arrangements have also been introduced in Bolivia, Chile, Colombia and Peru.[2] In May 1936, Australia introduced a licensing system designed to divert trade in certain products from the United States and Japan to the United Kingdom and other good export markets. The Canadian-American reciprocal trade treaty which came into force on January 1st, 1936, contained quota restrictions on certain Canadian imports. The development of agricultural protection in the United Kingdom has also entailed the imposition of quotas upon food imports from such countries as Denmark and the Argentine, and agreed restrictions upon imports of meat from Australia and New Zealand.

If attention is now turned to the use of monetary measures to restrict imports, it is convenient to begin with a brief summary of the principal changes that have taken place in regard to exchange-control systems in the past year.[3] Before doing so, however, it is necessary to recall the fact that, from the point of view of the countries which are still on the gold standard, currency depreciation elsewhere is the most effective of all monetary methods of restricting imports.

During 1935 and the first half of 1936, Lithuania, China, Hong-Kong, Manchukuo, Iran and Poland were added to the list of exchange-control countries, while exchange restrictions were increased in the countries of the gold *bloc*. In some of these countries, notably Lithuania, Poland and the three gold-standard countries — France, the Netherlands and Switzerland — the new measures were largely designed to prevent, or make more difficult, a flight of capital. In Lithuania, for instance, Jewish emigration to Palestine involved a capital export estimated at 10 million lits in 1935. Difficulty in securing payments under clearing agreements, fear of devaluation, and insecurity felt as a result of the Memel controversy were contributing factors. Exchange control was instituted on October 1st, 1935, and made more effective on November 14th, 1935. In China, Hong-Kong and Manchukuo, exchange control was an accompaniment of devaluation and the abandonment of the silver standard in November 1935. In Iran also, exchange control was introduced on March 1st, 1936, the official rate being fixed at 80 rials to the £.[1] The Polish exchange control was instituted on April 27th, 1936, after steady and substantial losses of gold from the central bank's reserves. The zloty has been maintained throughout the depression at its former gold parity and this has made the maintenance of reserves difficult. Recently, other difficulties have been added, mainly as a result of accumulating clearing balances in Germany and other countries, delays in Germany's payments for transit charges across the Polish corridor, and exports of capital as a result of Jewish migration to Palestine.

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[1] *Cf.* Michel CARSOW: " Quelques aspects du Commerce Impérial de la France ", 2 vols. Geuthner, Paris, 1935.

[2] On January 20th, 1935, Bolivia prohibited luxury imports and introduced a licensing system for imports; in Chile also, luxury imports are prohibited and all imports are licensed; in Colombia, luxury imports are prohibited and the licensing system which formerly applied to many articles was extended to all imports on August 1st, 1936; in Peru, quotas have been imposed on imports of cotton goods from Japan.

[3] Exchange control or supervision is in force in the following countries: Austria, Bulgaria, Czechoslovakia, Danzig, Denmark, Estonia, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Norway, Poland, Portugal, Roumania, Spain, Yugoslavia, the Argentine, Bolivia, Brazil, Chile, Colombia, Honduras, Nicaragua, Paraguay, Uruguay, Venezuela, Angola, Iran, Portuguese East Africa, Portuguese Guinea, Turkey, China, Hong-Kong, Manchukuo.

The only country which abolished its exchange control in this period was Ecuador, which, on October 7th, 1935, abolished the obligation established in December 1933 by which exporters paid 25% of their receipts to the central bank, which applied them to arrears of debt payments. These payments must now be made at the free market rate (10.50 sucres to the United States dollar compared with the former controlled rate of 5.95).

There were several countries in which the exchange-control systems were tightened in 1935 and 1936. In Germany, the incipient black market which operated by means of bank-notes exported abroad at exchange rates below the official rate and re-imported in payment for German exports was checked by Decrees of December 6th, 1935, prohibiting the import of bank-notes.

At the end of May 1936, the provisions of these decrees were extended to the import of German coin and to the export of articles containing precious metals. It was asserted that gold curtain-rings and name-plates had been specially manufactured as a device for evading the restrictions on capital export. By successive edicts in October and November 1935, the Italian Government also took steps to tighten the control over the importation of bank-notes, which had been prohibited in December 1934. Further measures were decreed on June 10th, 1936, making the control still more severe. Other countries which took similar steps were Czechoslovakia (December 1935) and Spain (March 1936). It was estimated that bank-notes amounting to about 50-70 million Czech crowns had been exported and were being sold at a discount of 6-10%. The amount was not large, but, since the traffic was taking an organised form, it was thought necessary to check it.

On the other hand, greater flexibility was introduced into some exchange-control systems and there was a fairly widespread tendency towards their simplification. Yugoslavia, without abandoning exchange control or the nominal gold parity of the dinar, has introduced export premiums and import surcharges amounting, since January 16th, 1935, to 28.5%, equivalent to an exchange depreciation of 22.2%. Hungary introduced a new system in December 1935, as a result of which export premiums and import surcharges are paid and levied according to the destination and origin of the goods concerned. Subject to certain special exceptions, exporters receive a premium of 50% over the official rate for goods consigned to the United Kingdom, the United States, the Netherlands, the Scandinavian countries, Poland and Spain. Importers from those countries pay a surcharge of 53%. For the gold-standard countries with which Hungary has clearing agreements — Belgium, Luxemburg, France and Switzerland — the premiums and surcharges are respectively 38% and 41%. For Austria, they are 10% and 13%. These regulations do not apply to countries with which compensation or barter agreements operate. For non-trading transactions with all the countries mentioned above, except Austria, the rates have been fixed at 50% and 53%. The whole system is worked in close conjunction with the control of imports, permits for importation being allotted only to the extent of available foreign exchange.

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[1] *Le Journal de Téhéran*, March 29th, 1936.

Roumania also introduced a new system of exchange control in December 1935. The exchange premium payable on exports to countries with "strong" currencies (those with no official exchange control) is fixed at 38%. In order to provide the funds necessary to pay this premium, an additional *ad valorem* duty of 12% is levied on all imports and also on petrol exports. The currencies described as "weak" (marks, pengö, drachmæ, leva, schillings, etc.) are negotiated freely on the market. These measures are equivalent to a devaluation of the Roumanian currency, which was virtually recognised also by raising the price of gold by 30%.

The devaluation of the Soviet rouble to a new exchange equivalent of 3 French francs as against the former official rate of 13.13 French francs took place in February 1936. It was accompanied by new exchange regulations forbidding the payment in the Soviet Union of foreign money against remittances by letters of credit and foreign cheques, the rate at which these will be exchanged being fixed at the new exchange parity. Foreign money will not be accepted anywhere in the Soviet Union for payment of goods or services.

It has already been shown that tariff discrimination (as, for example, by the use of multiple tariff systems as a basis of bilateral bargaining) and differential quota treatment have been extended in recent years. Their use tends to concentrate the direction of trade in official hands, where it rapidly becomes an instrument of national policy. A new mercantilism is growing up, but for the acquisition of treasure by an active trade balance it substitutes the modern equivalent — acquisition of essential raw materials. In its most highly developed form, such mercantilist policy uses, not only discriminatory tariffs and quota allocations, but also export subsidies and differential exchange rates, transaction by transaction, in what is conceived as an international struggle for world markets. These developments have moved far from the worldwide specialisation and international co-operation which was the fundamental principle of commerce dictated by consumers' choices and organised by individual trading initiative mainly with reference to readily comparable costs and prices in currencies that maintained stable exchange rates. These costs and prices, it is true, were affected by tariffs, but to an extent that in retrospect seems not so great.

The most potent weapon recently developed by the new mercantilism is exchange discrimination. The use of direct export subsidies also tends to spread ominously. In addition to the elaborate German system previously described, bounties and subsidies have recently been developed — for instance, in Italy — largely by assistance given to the corporations engaged in the production, *e.g.*, of cottons, sulphur, silk and rice. In addition to special import duties, a general import surcharge of 3% was imposed from July 1st, 1935, and was supplemented in January 1936 by a further tax on goods imported under private clearing agreements, the proceeds being used to subsidise exports. Subsidies or bounties on agricultural exports or production are widespread, financed sometimes by levies on the home market, sometimes by additional import duties, or by export taxes on other commodities,[1] or by direct subventions from general taxation. The broad effect in all cases is to maintain a high domestic price while encouraging dumped exports at competitive prices. Bounties and subsidies, however, involve taxation the effects of which are readily seen. Exchange discrimination is a more subtle, but more potent, method of subsidy and trade direction.

Its use involves what have come to be known as systems of double or multiple money. A mark, peso, pengö or lira, for instance, must now have a qualifying prefix. Tourist marks are familiar; but there are many other varieties of currency in different countries with varying external, but uniform domestic, values. Not only rates of exchange, but promptitude of payment (involving interest costs) depend upon the purpose for which these currencies are made available and also upon the relative volume of exchange being created through recent or current purchases of the country's exports by nationals of the other country.

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[1] In Venezuela, for example, foreign petrol companies must deposit the bulk of foreign exchange derived from their sales abroad with the Government, which has been able to establish a considerable fund with which to provide agricultural subsidies by selling the exchange to importers at a higher rate than that at which it is surrendered.

Essentially, these double moneys depend upon the existence of exchange restrictions and the accumulation of blocked balances. A brief explanation is perhaps necessary at this point in order to define the main substitute systems of trade that have sprung up during the depression. When exchange restrictions were imposed primarily to safeguard limited central bank reserves against the risk of external drains, black markets developed and barter transactions carried through at rates of exchange lower than official parities began to increase. With some difficulty importers, for example, of manufactured goods into such a country as Hungary made connection with exporters of Hungarian wheat. A double compensation was arranged between, say, the German manufacturer and the German wheat merchant on the one side and the Hungarian importer and export merchant on the other. Much ingenuity was displayed in these transactions, which were often complicated — *e.g.*, by the purchase abroad of Hungarian bonds at low prices, by sales of property in Hungary and similar devices. Such transactions gave rise to lower rates of exchange, which gradually tended to be stabilised. As the tension, particularly in respect of capital flights, gradually eased, it has proved possible in many countries to regularise these transactions and allow them greater freedom. Usually, the black-market rate improves as these private barter or compensation transactions are recognised. Sometimes the central banks obtain a proportion of the export price in the form of foreign exchange. The rate at which transactions can be carried out varies from country to country. For instance, in Bulgaria, where much trade is now permitted by private compensation (the Bank receiving 30-50% of the export price in foreign exchange), the average premium above official parity paid in transactions with Germany steadily fell during 1935 from 10.4% to 1.4%. This indicates an appreciation of the leva in terms of the mark, the large Bulgarian exports to Germany under the new German trade policy making blocked marks more plentiful and cheaper and leva dearer. The Italian lire premium has also fallen. It was 27.4% in January 1935, but had disappeared completely a year later. On the other hand, the premium on the French franc and the free exchanges varied between 30% and 40%.[1] In other words, the leva in these barter transactions approached parity with the lira and the mark, at a discount of 25-33 % with the free currencies.[1]

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[1] *La Parole bulgare*, March 12th, 1936.

Private clearings are based on the offsetting of currencies. For example, in Austria, imports from countries with which Austria has no clearing agreement are usually made by buying privately, at the private clearing rate, exchange derived from export to the country in question. In Roumania, since December 1st, 1935, the so-called "weak" currencies are sold freely on the market. Part of the exchange derived from Roumanian exports to Czechoslovakia, however, is delivered to the Central Bank, which uses it, at the official parity, to pay off Czech frozen balances in Roumania. The rest is sold on the market at the free rate. Since March 1936, Yugoslavia has replaced official clearings with Germany by a system of private clearings in order to encourage the repatriation by imports from Germany of the large blocked Yugoslav balances held in that country.

It is essential to distinguish clearly between private compensation and private clearing on the one hand, and official compensation and official clearing on the other. The former is an approximation to, and may be a preparation for, freer individual trade. The latter almost inevitably reinforces State intervention and even detailed trade regulation. Official compensation has already been described above with reference to the German Aski-mark system. Official clearing agreements consist of arrangements whereby a central authority (usually the central bank) in each of the countries concerned receives payment for imports from, and disburses payment for exports to, the other country. The accounts in each country are balanced in an agreed proportion, but recently the use that can be made of large debt arrears in the clearing accounts as a means of stimulating fresh exports has become an obvious inducement to use these accounts as a weapon of trade policy. In many countries of Europe, the former struggle to export more than was imported tends to give way to a struggle to import (but not pay for) as much as possible in order to have means later of stimulating exports. This is a new development grafted on to the experience with frozen balances in the crisis years. The earlier frozen balances were sold cheaply by foreign creditors, as were bonds of the countries with exchange restrictions, to those who wished to purchase supplementary exports. The rates of exchange used were at first fixed by private bargains; but the German exporter must now buy the blocked marks from the Golddiskontbank and the foreign importer does not know at what rate they are sold, but merely the price of the goods he imports. Since the end of 1934, all exchange derived from exports must be delivered to the Golddiskontbank, which uses part of it to buy German obligations abroad. The profit resulting from the difference of the prices paid for these obligations and the rate which the German exporter pays for them is used to subsidise exports. The whole procedure, therefore, is now directed officially.

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[1] New exchange regulations were issued on May 10th, 1936, simplifying the export premiums granted on various classes of goods. *Economist*, June 13th, 1936.

Reference has already been made to the new exchange-control regulations, as in Roumania, Yugoslavia and Hungary, which discriminate between groups of countries. It is necessary also to illustrate the use made of differential exchange rates in order to encourage the export of particular products. The illustrations in this case will be drawn from Central- and South-American countries; but it is obvious that this method of concealed export subsidy is open also to the countries which conduct a fair part of their trade under official compensation agreements. The Argentine, in January 1936, substituted for the former system of exchange tenders three rates of exchange — the official buying price of sterling, the official selling price and the free rate — at 15.00, 17.02 and 18.27 pesos to the £ sterling.[1] The proceeds of certain exports which it is desired to encourage may be sold at the free rate, while meat and wheat are sold at the official rate. Exchange operations in Brazil are regulated by a circular issued by the Bank of Brazil on February 11th, 1935. Export receipts were to be sold freely; but 35% of the exchange must first be handed over to the Bank, except in the case of certain favoured exports other than coffee. Payments for imports are greatly in arrears and, until June 28th, 1935, were regulated according to the date of importation exchange for those imported after February 12th, 1935, being bought at the free rate. Since June 28th, 1935, however, all purchases of exchange have been again controlled. The Chilian peso was again devalued by 50% in January 1935 and the difference between the free rate and the official rate (maintained for insurance payments, Customs duties and bank sales or purchases) was reduced. Customs duties, except on luxury goods, were reduced in proportion to the devaluation, those on luxury goods being automatically doubled in pesos. Exports of nitrates, copper, iodine and iron are given access to the free market; but 1-20% of the exchange proceeds of other exports must be delivered to the bank at the official rate. In January 1936, the official rate was 95.81 pesos and the export or free rate 128 pesos to the £ sterling. In Bolivia, also, the proportion of exchange which the exporters must deliver to the bank varies according to the commodity exported. Another illustration is the Venezuelan case previously cited, where the foreign petrol companies surrender a part of their exchange at the official rate.

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[1] As from March 1935, imports coming from countries which had no commercial or payments agreement with the Argentine have been subjected to licence and, if imported without licence, have paid a fluctuating tax sufficient to raise the exchange rate by 20% above the official selling price.

One further complication of exchange control remains to be mentioned. Recently, a new form of bilateral treaty, the "payments agreement", has appeared, notably between South-American countries and their creditor countries in Europe. "Payments agreements" are usually entered into in an endeavour to utilise the proceeds of a passive trade balance to cover debt service or the payment of commercial arrears. They represent an extension of the clearing system, which has recently come to embrace debt arrangements and tourist traffic as well as commodity trade. Tariffs tax imports, quotas regulate their quantity, compensation and clearing agreements endeavour to regulate the exchange payments for commodity trade. But national control of external economic and financial arrangements has entered new fields. Arrears of commercial debt, payments on account of tourist traffic, remittances of capital abroad (*e.g.*, Jewish payments to Palestine) and debt service are now included and therefore the agreements tend to be called "payments agreements".

Tourist traffic and debt service as well as commodity trade and the payment of commercial arrears tend, therefore, to be subjected to national control and directed in the interest of national policy. Thus, there are few countries outside those with which Germany has blocked balances in her clearing agreements for which a German tourist can now get foreign exchange. A special agreement with Switzerland was made on April 7th, 1935, by which German tourists in Switzerland received orders which could be cashed at any post office. These orders were issued against Swiss purchases of German coal, but German coal was too expensive, and insufficient Swiss purchases, combined with an influx of tourists, soon created a fresh German debt of 27 million Swiss francs. Switzerland therefore refused more tourists.[1] Meantime, Italy had bought largely from Germany and the latter took out part of the proceeds by an increased tourist traffic.

Moreover, the canalising and shrinkage of trade results in more frequent shortages of particular foreign currencies, so that debt service is not transferred so readily to countries which do not ensure its transference by including provision for it in their payments or clearing agreements. It therefore becomes necessary to safeguard the risk of bonds being transferred to countries which have made such provision. It is necessary, in other words, to establish a domicile for debt claims. As triangular trade is squeezed out, the prospects of creditor countries collecting the debt service due to their nationals depend more and more upon their readiness to conclude clearing or payments agreements with their debtors. Thus, the whole range of payments across national frontiers — the invisible as well as the visible items — tends to come under national regulation and control. The free trade by which individuals bought in the most specialised and therefore cheapest markets and investors lent abroad without more than ordinary commercial risks has increasingly given place to national autarchic systems. Where this development has gone furthest, the individual investor and trader have given way to Government officials manipulating discriminatory tariffs, quotas, subsidies and exchange rates in a fierce struggle to obtain essential raw materials. Raw materials are abundant, but acceptable means of payment are scarce, since, while all desire to sell, none desire to buy more abroad than the barest minimum that is necessary to maintain economic activity at home. The basic reason for the institution of such restrictions in almost every case was the desire to maintain currencies (and national price-systems) at what has proved a high and even artificial level. It is possible that currency adjustments may in the future remove the necessity for such elaborate trade restrictions; but the national systems that are being established are a powerful influence making for their own survival.

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[1] The special agreement was replaced in July 1936 by a chapter in the new clearing agreement providing for liquidation of this debt, and tourist traffic was resumed.

Chapter VIII.

SOME PROBLEMS OF PUBLIC FINANCE.

Difficulties of Interpretation.

Public discussion of financial policy is, for the most part, based upon the published figures summarising changes in taxation, expenditure and the public debt. Any attempt at scientific analysis of these figures, however, immediately encounters a host of difficulties. A few of the more obvious pitfalls in the interpretation of public accounts were briefly summarised in the *World Economic Survey* for 1933-34.[1] The series of chapters dealing with the public finances of different countries, published by the Economic Intelligence Service during 1936, deals more fully, but by no means exhaustively, with the problems that must be faced in any attempt at interpreting the statistics made available.[2] In order to avoid misunderstanding, it is necessary, even at the risk of some repetition, to outline here some of the principal facts that must be borne in mind.

The variations in economic resources and organisation are too great and the part played by the State in economic life differs too much from one country to another to make international comparisons valid, even if the accounts could be presented in a uniform manner. Thus, it is not very helpful to compare, say, the burden of indebtedness or the amount of taxation per head of population in rich countries such as Switzerland or New Zealand with those in poorer countries such as India or even Poland. The vast differences of economic and political organisation between the United States and the Union of Soviet Socialist Republics might serve as another illustration. In the same way, comparisons of debt or certain forms of expenditure which are based upon the budgets of central Governments are impossible between federal and unitary States. There are, moreover, great variations in the manner of reckoning and presenting the public accounts in different countries. It is not surprising, therefore, to find that "the proportion of public expenditure to national income varied from about 10 to about 50%; that the proportion of State expenditure to total public expenditure varied from about 40 to about 94%; and that of State expenditure to national income varied from about 5 to about 42%".[1]

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[1] Pages 221-224.

[2] Cf. *Public Finance, 1928-1935*, published by the League of Nations in separate parts during 1935, especially Part I — Preface and General Explanatory Note.

If international comparisons are put on one side as impractical or misleading, there remain the difficulties of analysing the financial situation as a whole in any one country. Anything like an accurate picture requires for each country a great deal of detailed research. The accounts usually discussed refer only to a fairly standardised and incomplete segment of the public finances as a whole. It is sufficient to look through the statements of the public finances of various European countries published by the Economic Intelligence Service during 1936 to realise how important, for example, are the special funds for various purposes that are often not considered in the discussions of budgetary surpluses and deficits. Thus, in Bulgaria, besides the special funds which have been incorporated in the ordinary budget since 1929/30, there are "the Railway Fund, the commercial accounts of the State Mines, the Pensions Fund, the Special Insurance Fund, the Epizooty Fund, the Communal Tax Fund, the School-teachers' Salaries Fund, the Social Calamities Fund, the Communal Roads Fund, and the Water Supply Fund. During 1934 and 1935, various special new funds were created, among which the most important are: the State Road Fund (which was combined with the Communal Roads Fund), the Electrification Fund and the Social Relief Fund. The special funds consist mainly of surtaxes on the State taxes, various contributions, etc. Certain of them receive, in addition, grants from the ordinary State budget, as in the case of the Pensions Fund, the Social Insurance Fund and the Road Fund."[2]

This example has been cited to illustrate the inadequacy of any analysis that is confined to the ordinary budget figures. In the case of Bulgaria, the ordinary budget in 1933/34 showed receipts amounting, in millions of leva, to 4,820.7 (including 289.7 of untransferred service on foreign debt) and expenditure totalling 5,170.2, leaving a deficit of leva 349.5, which was reduced to 183.6 by the transference of 165.9 from special funds. In addition, there was an extraordinary budget of 326.4.

The use of extraordinary budgets and special funds has been greatly extended in recent years. With the development of armament programmes in addition to public works and relief activities, such financial devices have steadily increased in importance. It is, therefore, no easy task to arrive at a complete estimate of the financial situation of a central Government, still less of all the governing authorities in a country.

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[1] *Public Finance, 1928-1935*, I — Preface and General Explanatory Note, page 7.
[2] *Ibid.*, VI — Bulgaria.

The distinction between current and capital expenditure is always difficult to make, and in very few countries is it possible without considerable investigation to arrive at a reasonable estimate. In recent years, the tendency has been to divide, rather than integrate, the budgets "into ordinary, current, permanent, effective, extraordinary, non-recurrent, exceptional, temporary, transitional, capital, emergency, or crisis receipts and expenditure. The principle of these divisions varies from country to country, and in some cases even from year to year in the same country, but generally such division is determined by the justification (or otherwise) for covering such expenditure by loans." [1]

The full complexity of the variations in accounting methods cannot even be outlined here. The true significance of the figures published for receipts and expenditure can only be established after a close study of the national accounts in question. There is, first, the elementary distinction between preliminary or draft estimates, estimates, provisional results and closed accounts, the last becoming available only after a certain lapse of time, which in some countries may extend into years. In many countries, cash receipts and expenditures are shown, the accounts being closed within a brief period after the end of the financial year. In others, the receipts represent claims established by the Treasury and the expenditure represents "the pay orders issued, the liabilities acknowledged, the commitments entered into, or the amounts placed at the disposal of the individual services for payments (exchequer issues, warrants issued)". There is a great variety of accounting definitions and practices among the various countries.

The bearing of these difficulties of interpretation upon the published accounts may be illustrated by the following comment upon the Roumanian statistics: "Figures in the expenditure table do not give a consecutive picture of the development of expenditure during the period under review. This is due (*a*) to the changes in the budget structure and method of accounts — *e.g.*, the inclusion of certain items in one year and exclusion in other years (expenditure on arrears, extraordinary expenditure, etc.), transition from gross to net budgets in certain cases, and the different lengths of the periods during which the books have been left open for payment of commitments incurred; and (*b*) to the fact that they represent cash payments, the corresponding amount being regarded as having been deposited by the creditors with the Treasury and that there remain large additional arrears of commitments to be paid."[1]

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[1] *Public Finance, 1928-1935*, I — Preface, etc., page 12.

The illustration cited refers only to the aggregate amounts of receipts and expenditure. When it is necessary to analyse the details of specific forms of revenue or items of expenditure, still greater caution is needed. Definitions and methods of accounting differ greatly. It is necessary to dissect the national accounts in some detail, to consider the accounts of local as well as central governing bodies, of special funds as well as the general budget, and often to study the relevant legislation and administrative practice. Thus, a study of armaments or social welfare expenditure cannot be confined to specific aggregates in the ordinary budget, nor can any adequate study of the proportions of various costs of taxation leave out of account the taxing powers of local governments and the additional taxes on account of special funds.

A further difficulty has arisen in the last year or two from the reticence of certain Governments regarding their financial operations. Parliamentary democracy requires the regular and full, if sometimes delayed, presentation of public accounts. Despite their complexity, these accounts can be analysed so as to present fairly clear and understandable statements of the country's financial situation, which is, at least potentially, exposed to continuous public criticism. The case is different when highly centralised and powerful Governments publish only a minimum of information, confined usually to the ordinary budget. In modern times, when the life of the individual is so greatly affected by Government action, especially in periods of sharp economic fluctuation, public receipts and expenditure are an important element in the distributive struggle. Indeed, with the growing use of discriminatory taxation and the development of Government services, the distributive conflicts between social groups and classes tend more and more to be centred in the financial policies pursued by Governments. In default of full information concerning these policies, there is little possibility of judging shifts in economic welfare.

THE RECOVERY OF PUBLIC REVENUES.

With growing discrepancies between sustained or increasing expenditure and declining revenue, most Governments were faced with budgetary deficits in the earlier years of the depression. At the same time, they were constantly urged to undertake bold schemes of public works and unemployment relief to counteract the depression. There were some countries, such as Australia and the United Kingdom, where strenuous and successful efforts were made at an early stage to restore budgetary balance. In others, such as the United States, the budget was deliberately unbalanced, or supplemented by an extraordinary budget, in order to undertake measures to combat the depression. In other countries, again, especially in those where deflationary policies persisted, deficits and treasury difficulties, aggravated by the high cost of borrowing, continued even after the turning-point of the world depression in 1932/33.

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[1] *Public Finance, 1928-1935*, XXIV — Roumania, page 9. *Cf.* also somewhat similar comments on Greece and Albania.

If there is no simple way in which the true financial position of the various countries can be summarily stated, attention may be drawn to certain characteristic tendencies which are common to more than one country.

A previous volume of the *World Economic Survey* briefly summarised the main trends of taxation in the depression years.[1] Among these were the increase and multiplication of fees and administrative charges, the taxation for special purposes of certain commodities, such as motor-cars, the increasing importance of State undertakings, and the imposition of additional taxes or surtaxes upon a wide range of commodities and services, as well as the tightening of collections and the reassessment of tax schedules. The general conclusion was reached that "Governments have sought revenue where they could find it, placing more stress on the yield than on the equity of different methods of taxation".

In an endeavour to analyse the shifts of taxation that occurred as a result of these developments, tables were compiled summarising the yields from the main sources of taxation in several countries. It was shown that, in most countries, the yield of taxes on income and property had fallen so heavily that there had been a considerable shift to taxes on consumption, such as turnover taxes, and in some cases to Customs duties. This shift necessarily involved a less equitable incidence of taxation, since in most cases taxes on consumption are regressive. Losses in graduated income taxation or death duties were largely replaced by added taxation of commodities or services in general use. In a few, mainly agricultural exporting, countries the depression affected Customs receipts so severely that new or increased resort was had to taxes on income and property; but, in practically all of these countries, taxes on consumption were also increased, in some cases very heavily.

Since these figures were published, there has been a recovery of tax revenue in all but a few countries, and it is convenient to give illustrations of this recovery before re-examining the proportions of revenue derived from different sources. If the yields of taxes on income and property are considered first, it will be noticed that, since 1932/33, there has been recovery in the Argentine, Austria, Belgium, Bulgaria, Canada, Chile, Estonia, Finland, France, Japan, New Zealand, Norway, Poland, Spain, Sweden, the Union of South Africa, the United States and Yugoslavia; but the estimates for 1935/36 are greater than the results in 1929/30 only in the Argentine, Canada, Denmark, Spain, Sweden and the Union of South Africa. In all the latter group of countries except Sweden, the increased receipts are primarily due to higher rates.

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[1] *World Economic Survey, 1933/34*, pages 224-233.

Higher rates, revised schedules, more rigorous collection and the suppression of abuses or elimination of concessions were the rule in practically every country up to 1932/33. Since the turn of the depression, there has been some tendency to lower rates and more liberal concessions in the countries where budgetary balance was achieved in the crisis period largely by stiffening direct taxation. The United Kingdom (until the budget of 1936/37) offers an illustration of this tendency to relax direct taxation. In Australia, also, rates were lowered after the worst of the depression was past. Such reductions, however, have not as a rule been substantial enough to bring rates down to pre-depression levels. The restoration of cuts in expenditure has been regarded as more urgent than tax reduction. There are relatively few countries where, even at the high rates still ruling, income and property taxes have yet returned yields comparable to those of the pre-depression period. Levels of prices are lower and incomes and profits remain on a lower scale. It is clear that, in most countries, these sources of direct taxation had not fully recovered their pre-depression buoyancy by the fiscal year 1935/36.

The yield of Customs taxation in 1935/36 was expected to show increased returns as compared with 1929/30 in a group of countries — Denmark, Finland, Norway and South Africa — where imports have increased again very considerably and also in some countries — Belgium, France, the Netherlands, Switzerland — where new duties have been sufficient to counteract the decline of trade, as well as in the United Kingdom, where both new duties and increased imports have been registered. Since 1932/33, there has been an upward tendency also in the Argentine, Australia, Canada, Chile, Estonia, Japan, New Zealand, Sweden and the United States, but in none of these countries has the 1929/30 level yet been attained. It is significant that, in a large number of European countries, despite high duties, Customs receipts continued to fall in recent years. It must be remembered also that, in a great number of countries, the currencies are now depreciated, and the failure of receipts (expressed in the new currencies) to rise to pre-depression levels is significant of the extent to which trade has declined. Thus, in Australia, the currency is 50% below its former gold parity and at a discount of 20% below sterling, so that imports from the United Kingdom are valued in Australian currency at 25% above sterling prices and those from gold-standard countries at double the old parity. Duties have recently been lowered somewhat from the high levels that were introduced early in the depression; but, largely because of lower price-levels, the total value of imports fell in sterling from 128 millions in 1929 to £A40 million in 1931 and rose only to £76 million in 1935. Even in Australian currency, the value has fallen from £A128 to £A95 million, or by 25%, so that revenue has declined considerably.

Yield of Taxes on Income and Property, 1929-1935.

National currencies (000,000's omitted).

P.R. = Provisional results. E. = Estimates. R E. = Revised estimates. D.E. = Draft estimates.

Country	Currency	1929 or 1929/30	1932 or 1932/33	1933 or 1933/34	1934 or 1934/35	1935 or 1935/36
Argentine . .	Peso	14.1	68.1	80	82	E. 81
Australia . .	£ Aust.	14	12.5	10.6	10	E. 10
Austria . . .	Schilling	385	327	281	280	P.R. 299
Belgium. . .	Franc	P.R. 3,418	P.R. 2,219	P.R. 2,424	P.R. 2,301	E. 2,344
Bulgaria. . .	Leva	979	697	788	678	E. 784
Canada . . .	$C.	69	62	61	67	.
Chile	Peso	221	103	151	171	D.E. 165
Czechoslovakia	Kč	2,032	2,067	1,855	1,661	E. 1,955
Denmark . .	Krone	111	140	128	115	E. 118
Estonia . . .	Kroon	6.6	5.7	5.3	5.8	E. 5.8
Finland . . .	Markka	547	440	459	485	E. 521
France . . .	Franc	P.R. 14,871	P.R. 10,092	P.R. 10,050	P.R. 10,638	E. 10,924
Germany . .	RM.	1,663	1,102	E. 807	.	.
Hungary . .	Pengö	224	226	224	E. 224	E. 216
India	Rupee	171	182	173	R.E. 4 175	E. 166
Italy	Lira	5,192	4,644	4,539	P.R. ,492	E. 4,453
Japan . . .	Yen	345	247	276	E. 285	E. 323
Netherlands .	Gulden	214	144	119	120	115
New Zealand	£N.Z.	5	4.1	3.5	4.3	E. 4.7
Norway . . .	Krone	84	71	72	72	E. 82
Poland . . .	Zloty	903	577	580	P.R. 633	E. 654
Portugal . .	Escudo	P.R. 506	P.R. 489	P.R. 467	E. 453	.
Spain	Peseta	P.R. 1,002	P.R. 1,070	P.R. 1,145	P.R. 1,104	E. 1,172
Sweden . . .	Krona	155	152	143	159	E. 171
Switzerland .	Franc	45	27	15	25	E. 22
Un. of S. Africa	£S.A.	7.8	7.2	16.2	15.2	E. 15.5
Un. Kingdom	£	297	315	284	[illegible] 283	[illegible] 291
U. S. A. . .	$	2,410	747	817	P.R. 1,197	E. 1,284
Yugoslavia .	Dinar	2,247	E. 1,363	E. 1,438	E. 1,790	1,790

The Yield of Customs Duties, 1929-1935.

National currencies (000,000's omitted).

P.R. = Provisional results. E = Estimates. R.E. = Revised estimates. D.E. = Draft estimates.

Country	Currency	1929 or 1929/30	1932 or 1932/33	1933 or 1933/34	1934 or 1934/35	1935 or 1935/36
Argentine	Peso	426	286	305	298	E. 304
Australia	£A.	30.2	21.3	22.3	25.3	E. 24.7
Austria	Schilling	286	230	180	204	P.R. 211
Belgium	Franc	P.R. 1,319	P.R. 1,556	P.R. 1,662	P.R. 1,700	E. 1,757
Bulgaria	Leva	1,407	883	626	537	E. 736
Canada	$C.	179	70	66	77	.
Chile	Peso	709	150	382	383	D.E. 346
Czechoslovakia	Kč	1,457	913	651	667	E. 809
Denmark	Krone	102	83	100	106	E. 105
Estonia	Kroon	21.1	13.4	13.4	P.R. 15.3	E. 14.5
Finland	Markka	1,337	1,021	1,243	1,487	E. 1,383
France	Franc	P.R. 4,425	P.R. 6,059	P.R. 4,724	P.R. 5,312	E. 7,699
Germany	RM.	1,095	1,106	E. 1,140	.	.
Hungary	Pengö	97	35	37	E. 35	E. 39
India	Rupee	513	519	472	R.E. 512	E. 518
Italy	Lira	2,554	2,413	2,323	E. 2,370	E. 2,553
Japan	Yen	136	105	114	E. 114	E. 130
Netherlands	Gulden	72	84	99	82	E. 99
New Zealand	£N.Z.	8.9	6.1	6.5	7.4	E. 7.9
Norway	Krone	110	99	106	113	E. 110
Poland	Zloty	395	108	94	P.R. 80	E. 112
Portugal	Escudo	P.R. 680	P.R. 658	P.R. 712	E. 666	.
Spain	Peseta	P.R. 664	P.R. 527	P.R. 480	P.R. 478	E. 490
Sweden	Krona	154	117	113	136	E. 137
Switzerland	Franc	277	322	317	334	E. 300
Un. of S. Africa	£S.A.	9.3	8.3	8.7	10.2	E. 8.7
Un. Kingdom	£	120	167	179	185	197
U. S. A.	$	583	280	313	P.R. 343	E. 298
Yugoslavia	Dinar	1,530	E. 1,100	E. 780	E. 650	E. 650

These sources of revenue from income and property taxes and from Customs duties have not, in most countries, recovered their buoyancy; the regressive taxes on consumption have not therefore been much lightened in the recovery period since 1932. There remains in most countries a complex system of additions to old taxes and surtaxes, as well as a considerable extension of turnover taxes and special crisis imposts. Thus, in the Netherlands, in addition to increased import duties, excise duties have been raised on spirits, sugar, beer and tobacco, a turnover tax was introduced in 1934, as well as taxes on interest coupons and mortmain property. Defence taxes represent additional rates on property and income, land, dividends, directors' fees, additional excise duties on spirits, sugar, tobacco, and wine and additional stamp duties. As from 1931, also, new additional taxes were created to cover expenditure on the crisis services. Even in the countries where recovery is definite, the additional taxation has persisted, since the restoration of economy cuts and new expenditure have taken precedence of tax relief. In New Zealand, for example, the special taxes for unemployment relief, the stamp duty on interest receipts and the 5 % sales tax are still in operation. In Denmark, besides supplementary and new Customs and excise duties, there have been supplementary taxes on petrol, coffee, oils and fats, and temporary succession duties, which have been prolonged from year to year.

The table on the following page, which brings up to date those published in the *Survey* for 1933/34, indicates that there has been in many countries a distinct tendency for the proportion of revenue derived from incomes and property to return towards its pre-depression figure. This partly bears out the earlier statement that the changed proportions at the depth of the depression might prove to be temporary. On the other hand, the return toward pre-depression proportions is not general and is nowhere complete. Income and property taxes have not fully recovered; Customs duties, except where new tariffs have been introduced, remain very much below former levels, and the increased reliance of Governments upon consumption taxes has not been greatly modified as yet.

Caution is needed in interpreting this table, since the circumstances of the various countries differed widely. The latest percentage shown in each case is calculated upon the basis of estimates, whereas the earlier figure is calculated from closed accounts. Experience shows that estimates are not always borne out in fact; but the accounts for intervening years have been studied and the estimates are in general accord with the trend in each case. Of the countries considered, eleven — Australia, Denmark, Finland, New Zealand, the Netherlands, Norway, Spain, Sweden, the United Kingdom, Union of South Africa and the United States — budgeted for total tax revenue greater in 1935/36 than in 1929/30.

In the first group, which in recent years has relied more than formerly upon consumption taxes, there is a significant development to record. In the *Survey* for 1933/34, the shift appeared to be largely caused by the temporary loss of revenue from direct taxes, the yield from which shrank in the depression. It now appears that the decline of Customs receipts (except where, as in Belgium, the Netherlands and Switzerland, the combination of persistent depression and higher Customs duties has raised the proportion of the latter in the total of tax receipts) has been

The Principal Sources of Taxation as Percentages of Total Taxation, 1929-1936.

A. — IN COUNTRIES WHERE THERE HAS BEEN A MARKED SHIFT TO TAXES ON CONSUMPTION.

Country	Taxes on income and property		Taxes on transactions, including death duties		Customs receipts		Domestic taxes on consumption and turnover including net yield of monopolies	
	1929	1936	1929	1936	1929	1936	1929	1936
Australia [a]	22.7	16.9	3.7	2.5	52.4	41.8	21.1	38.7
Austria [b]	27.7	22.2	9.3	9.4	20.6	16.5	42.3	51.8
Belgium [c]	33.9	28.0	41.1	35.0	13.1	19.7	11.9	17.2
Bulgaria [d]	21.0	18.1	17.9	11.4	30.2	20.0	31.0	49.6
Canada [e]	18.4	22.4	1.5	1.5	47.6	25.6	32.6	50.4
Denmark [f]	28.8	28.8	10.8	9.3	26.4	22.6	34.0	39.3
Finland [g]	23.4	23.3	9.9	6.7	57.2	55.9	9.5	14.2
Hungary [a]	27.6	34.1	13.9	13.4	15.0	6.1	43.4	46.4
New Zealand [h]	25.8	22.7	17.5	13.0	45.9	38.6	10.8	25.6
Netherlands [i]	35.3	16.8	18.7	8.9	11.9	14.5	34.1	59.8
Norway [j]	29.2	27.0	5.3	3.8	35.0	31.2	30.6	38.1
Spain [k]	28.9	31.8	21.0	20.5	19.1	13.3	31.0	34.4
Sweden [j]	26.7	23.4	10.4	8.4	26.9	19.9	35.9	48.3
Switzerland [i]	11.6	7.5	16.6	11.4	71.8	76.2	-	4.9
U. S. A. [l]	65.7	48.1	3.8	7.0	16.9	6.4	13.6	38.4
Venezuela [m]	21.7	32.3	7.4	6.9	54.7	36.7	16.1	24.0
Yugoslavia [h]	28.4	28.1	14.1	13.5	19.3	10.2	38.2	48.1

[a] Closed Accounts 1928/29 and Estimates 1935/36.
[b] Closed Accounts 1929 and Estimates 1936.
[c] Provisional Results 1929 and Estimates 1936.
[d] Closed Accounts 1929/30 and Estimates 1936.
[e] Closed Accounts 1929/30 and 1934/35.
[f] Closed Accounts 1929/30 and Estimates 1936/37.
[g] Figures on basis of assessments.
[h] Closed Accounts 1929/30 and Estimates 1935/36.
[i] Closed Accounts 1929 and Estimates 1935.
[j] Closed Accounts 1928/29 and Draft Estimates 1936/37.
[k] Provisional Results 1929 and Estimates 1935.
[l] Closed Accounts 1928/29 and Estimates 1936/37. Figures for 1936/37 include new taxes: bituminous coal tax, social security tax, etc.
[m] Closed Accounts 1928/29 and Estimates 1935/36.

B. — OTHER COUNTRIES.

Country	Taxes on income and property		Taxes on transactions, including death duties		Customs receipts		Domestic taxes on consumption and turnover including net yield of monopolies	
	1929	1936	1929	1936	1929	1936	1929	1936
Argentine [a]	2.3	13.8	8.9	15.2	69.3	51.9	19.5	19.0
Chile [a]	21.0	16.6	5.8	25.3	67.2	52.7	6.0	5.3
Colombia [a]	5.8	10.1	4.3	9.1	79.2	70.7	10.8	10.1
France [b]	31.7	25.8	17.0	15.4	9.4	19.6	41.8	36.5
Japan [c]	30.0	29.2	10.9	11.8	11.8	11.7	47.3	47.3
Union of S. Africa [d]	37.3	53.6	8.6	6.4	44.5	32.2	9.6	7.8
United Kingdom [d]	43.9	40.5	15.6	14.8	17.2	26.5	22.8	18.1

[a] Closed Accounts 1929 and Estimates 1936.
[b] Provisional Results 1929 and Estimates 1936.
[c] Closed Accounts 1929/30 and Estimates 1935/36.
[d] Closed Accounts 1929/30 and Estimates 1936/37.

the main continuing reason for the shift to consumption taxes. With the decline of international trade, it has become necessary to tax consumption in the home market rather than at the point of entry of imported goods. It is significant of the cost of economic nationalism that, even where there has been some recovery of the yield from direct taxation, domestic consumption taxes still occupy a larger place in the taxing system than before. In so far as they replace direct taxation, their effect upon costs of living is substantial and regressive, bearing most harshly upon the lower income groups.

Of the countries where the proportion of revenue from consumption taxes has not increased, the Union of South Africa and the United Kingdom are the only ones where revenue was greater in 1935/36 than in 1929/30. In the Union of South Africa, direct taxation of the mining industry and, in the United Kingdom, the introduction of protective tariffs have rendered new taxes on domestic consumption unnecessary. In France, the taxes derived from consumption have fallen more than those derived from Customs duties. Customs receipts have fallen substantially in all the other countries except Japan, where the proportions of taxation have changed very little. The loss of Customs revenue has been made up in the Argentine by taxes on income and property, in Chile by taxes on transactions and in Colombia by both.

INCREASING PUBLIC EXPENDITURES.

For the reasons given in the first section of this chapter, there is little to be gained by tabulating Government expenditures as they are recorded in budgetary statements. Confined as they are very largely to the regular current expenditures, budgetary statements give a very incomplete and even misleading notion of the total disbursements of Governments through the extraordinary as well as the ordinary budgets and through various subsidiary organs of Governments and special funds.

New Zealand affords an example of the importance of expenditure outside the ordinary budget. The total receipts shown by the Consolidated Fund in 1934/35 were £26,126,094, while payments amounted to £24,499,595; but it is officially stated that the total net Government receipts were £42,500,000 and total net payments £40,700,000. The list of special funds is a long one and the total transactions recorded amounted to about £400 million on either side of the ledger in 1933/34 and £100 million in 1934/35. Allowance made for double-counting, this large total is reduced to the net figures given above; but the

Consolidated Fund totals are not really comparative with these net figures.[1]

Budgetary Expenditures in Various Countries (including Amortisation).

National currencies (000,000's omitted).

O. = Ordinary. E. = Extraordinary. P.R. = Provisional results. E. = Estimates.

Country Currency	1932 or 1932/33		1933 or 1933/34		1934 or 1934/35		1935 or 1935/36		1936 or 1936/37	
	O.	E.	O.	E.	O.	E.	O.	E.	O.	E.
Argentine . (Peso)	797[a]	138	786[a]	224	781[a]	260	1,255		E. 779[a]	E. 127
Australia. (£Austr.)	95		97		106		E. 102		—	—
Austria . . (Schill.)	1,284		1,331	157	1,468	111	E. 1,298	E. 100	E. 1,303	E. 37
Belgium . . (Franc)	P.R. 11,234	392	P.R. 10,358	829	E. 10,386	E. 1,127	E. 9,909	E. 1,878	—	—
Bulgaria . . (Leva)	5,340	227	5,170	326	E. 3,800[b]	413[b]	E. 5,695	.	E. 6,164	.
Canada . . . ($C.)	368		347	7[c]	354	7[c]	E. 391	E. 6[c]	E. 381	E. 3[c]
Chile . . . . . (Peso)	704		944		975		1,291		E. 1,291	
Czechoslov. . (Kč)	10,258		9,588		8,881		E. 7,188	E. 795	E. 7,184	E. 849
Denmark . . (Krone)	328	226	393	319	393	282	E. 394	E. 115	E. 441	E. 66
Estonia . . (Kroon)	61	8	61	4	64	10	E. 65	E. 5	E. 71	E. 7
Finland . (Markka)	3,002		2,544	703	2,599	1,202	2,873	1,596	E. 2,720	E. 1,117
France. . . (Franc)	41,422[g]		50,572		E. 50,163		E. 47,817		E. 40,307	
Germany . . (RM.)	6,364	21	6,270		8,221		—		—	
Hungary . . (Pengö)	1,099		1,113	72	1,110	78	E. 1,123	E. 53	—	—
India . . (Rupee)	1,239	0.2	1,191	3	E. 1,219	E. 12	E. 1,209	E. 0.1	—	—
Italy . . . (Lira)	15,853	7,003[h]	14,935	13,202	P.R. 14,778	7,193[h]	E. 14,651	E. 5,567[h]	E. 16,206	E. 5,839[h]
Japan . . . (Yen)	1,950		1,313	942	1,225	938	E. 1,310	E. 905	E. 2,312	
Netherlands (Guld.)	1,273		677	558[c]	E. 752	E. 73[c]	E. 746	E. 59[c]	E. 711	E. 92[c]
N. Zealand . (£N.Z.)	23		24		25		E. 25		—	
Norway . . (Krone)	327[d]	53[c]	312[d]	57[c]	328[d]	66[c]	E. 365[d]	E. 72[c]	E. 399[d]	E. 82[c]
Poland . . (Zloty)	2,176	69	2,208	79	PR. 2,176		E. 2,097	E. 72	E. 2,154	E. 68
Portugal . (Escudo)	1,957		1,918	169	P.R 2,724	E. 184	E. 1,923[e]	E. 664[e]	—	—
Spain . . (Peseta)	4,291		4,422		4,480		E. 4,841		E. 2,495[i]	
Sweden . (Krona)	801	190	772[d]	201[c]	815[d]	334[c]	E. 867[d]	E. 189[c]	E. 914[d]	E. 253[c]
Switzerland. (Franc)	444		482		480		504		E. 496	
Un.S.Africa (£S.Afr.)	27		33		35		E. 37		E. 37	
Unit. Kingdom . (£)	862		779		797		842		E. 894	
U. S. A. . . . . . ($)	4,027[k]	1,268[f]	3,259[k]	3,149[f]	3,841	3,149[f]	E. 4,776	E. 2,869[f]	E. 5,650	E. 1,103[f]
Yugoslavia . (Dinar)	6,969		6,653		6,319		E. 6,913		—	

[a] Effective expenditures.
[b] IV at XII. 1934.
[c] Capital expenditures.
[d] Current expenditures.
[e] 1936 beginning in January
[f] Emergency.
[g] III-XII, 1932.
[h] Extraordinary and capital expenditure.
[i] Amount voted for the first two quarters.
[k] Including trust funds.

Budgetary figures of armament expenditures, themselves the result of rather laborious dissection of various budget items, are given in the following table, but they are far from disclosing the total armament expenditure in most countries.

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[1] *New Zealand Official Year-Book*, 1936, pages 431-437.

Expenditure on Armaments.[1]

National currencies (000,000's).

P.R. = Provisional results. E. = Estimates. R.E. = Revised estimates. D.E. = Draft estimates.

Country	Currency	1929 or 1929/30	1932 or 1932/33	1933 or 1933/34	1934 or 1934/35	1935 or 1935/36	1936 or 1936/37
Argentine	(Paper peso)		137	139	153	E. 140	E. 140
Australia . . .	(£A.)	4.4	3.1	3.8	8.5	E. 5.6	...
Austria . .	(Schilling)	99	81	86	105	E. 116	E. 126
Belgium. . .	(Franc)	P.R. 981	P.R. 1,035	P.R. 937	E. 270	E. 1,120	D.E. 1,360
Bolivia [a] [b] .	(Boliviano)	9.2	E. 11.4	.	E. 11.4	.	.
Brazil [a]	(Pap. milreis)	445	896	608	794	E. 627	E. 723
Bulgaria . . .	(Leva)	1,078	793	755	690 [g]	E. 976	E. 1,012
Canada	($C.)	21.1	14.1	19.6	14.2	E. 18.6	E. 20.4
Chile [c]	(Peso)	237	152	174	212	E. 285	E. 362
Colombia [a] [d] . .	(Peso)	7.7	3.8	16.8	24.4	R.E. 13.4	E. 12.3
Czechoslovakia.	(Kč)	1,793	1,621	1,554	1,797	E. 1,610	E. 2,006
Denmark . .	(Krone)	49.7	38.7	39.7	41.1	E. 41.5	E. 42
Egypt	(£E.)	2	1.7	1.8	E. 1.8	E. 1.8	
Estonia . . .	(Kroon)	18.4	12.9	13.0	E. 15.2	E. 14.9	E. 17.6
Finland. . .	(Markka)	640	638	654	768	E. 708	E. 865
France [e] . .	(Franc)	E.10,969	E. 9,965 [g]	E.11,447	E.11,187	E.10,623	E. 7,180
Germany [a] [f]. .	(RM.)	691	633.7	E. 671.7	E. 894.3		
Greece . .	(Drachma)	2,211	P.R. 1,742	P.R. 1,863	P.R. 1,995	E. 2,445	...
Hungary . .	(Pengő)	114	92	85	P.R. 90	E. 93	...
India	(Rupee)	504	416	404	R.E. 405	E. 418	...
Italy	(Lira)	4,960	5,412	4,824	E. 4,300	E. 4,417	...
Japan [h] . . .	(Yen)	495	686	873	E. 938	E. 1,022	...
Latvia	(Lat)	40	27	28	R.E. 30	E. 32	...
Lithuania . .	(Litas)	49	46	49	50	65	...
Mexico	(Peso)	103	E. 61	55	E. 61	E. 61	...
Netherlands .	(Florin)	72.6	70.4	63.8	E. 63.8	E. 75.8	D.E. 75.8
New Zealand	(£N.Z.)	0.9	0.6	0.7	0.9	E. 0.9	
Norway . .	(Krone)	38.1	36.7	36.6	37.2	E. 38.3	D.E. 39.2
Paraguay . . .	(Peso)	75	E. 80	E. 80	.	.	
Peru [a]	(Sol)	25	18	E. 22	E. 25	E. 30	D.E. 31
Portugal . .	(Escudo)	P.R. 415	P.R. 501	P.R. 532	E. 483	...	...
Poland . . .	(Zloty)	866	768	768	P.R. 768	E. 768	E. 768
Roumania [a] [b] .	(Leu)	7,536	4,999	4,680	6,874	6,964	7,512
Spain. . . .	(Peseta)	P.R. 1,003	P.R 634	P.R. 695	P.R. 645	E. 739	...
Sweden . . .	(Krona)	138	125	126	128	E. 121	D.E. 126
Switzerland .	(Franc)	84	93	90	93	E. 96	E. 96
Turkey	(£T.)	67	44	46	P.R. 60	E. 57	...
Un. of S. Africa	(£S.A.)	1.1	0.8	1	1.3	E. 1.8	...
United Kingdom [i]	(£)	99.3	88.2	93.5	99.1	E. 109.1	E. 160.7
U. S. A.	($)	703	642	570	P.R. 805	R.E. 907	E. 986
U.S.S.R. [a].	(Rouble)	961	1,412	1,546	5,000	P.R. 8,200	E.14,816
Yugoslavia .	(Dinar)	2,309	P.R. 2,016	P.R. 1,804	P.R. 1,704	E. 2,002.1	.

[a] Including certain pensions.

[b] The budget for 1933 does not contain any estimate for the War Department, for which a special extraordinary budget, which is not yet available, has been prepared.

[c] In addition to the ordinary budget, special appropriations from loans amounted, in millions of paper pesos, to 129 in 1929, 105 in 1930, 4 in 1931 and 1 in 1934.

[d] In 1933 and 1934, including war expenditure.

[e] Excluding important expenditure effected out of special Treasury accounts for the defensive organisation of the frontier, etc.

[f] Army and Navy only, excluding expenditure on civil aviation and protection against air attacks. Excluding pensions, which in 1932/33 amounted to RM. 1,238.1 million.

[g] Nine months only.

[h] Defence expenditure in the general account only. No details regarding the special accounts are available.

[i] Net expenditure.

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[1] League of Nations, *Armaments Year-Book, 1936*, Geneva 1936.

It is, however, a melancholy reflection that, with comparatively few exceptions, mostly of small and relatively isolated Powers, armament expenditure as shown in recent budgets is considerably above the figure for 1929, even when no account is taken of special funds and extraordinary expenditure.

In the countries where substantial recovery has occurred, salary and other reductions have generally been restored, and there is some general tendency towards administrative expansion as State intervention extends into new fields.

In general, expenditure on social welfare shows a declining tendency in most countries. The abnormal expenses involved by unemployment have been reduced, such services as health and education remain at much the same levels as in the pre-depression years, while the demand for their extension is held in check by the growing expenditure on armaments in most countries. There is, nevertheless, a strong demand for their extension and, at the same time, such services as social insurance and pensions steadily expand and call for increasing contributions from the State. In many Central and Eastern European countries where the financial situation has been and remains difficult, there have been sharp reductions of the education, health and social service (apart from unemployment relief) votes. Statistics of expenditure on various social-welfare purposes in the United Kingdom are summarised in the following table.

Net Expenditure of the United Kingdom Government upon Social Welfare, 1929/30 to 1936/37.

	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36 Estimates	1936/37 Estimates
Unemployment (grants and contributions to funds)	14.0	29.1	43.0	72.7	65.4	60.6	68.4	63.0
Grants to employment schemes . .	1.7	2.2	2.7	3.5	4.0	4.2	4.2	4.1
Public Health (including housing grants)	26.6	22.9	23.3	22.3	21.5	22.4	23.3	25.1
Other social expenditure	43.2	51.4	53.8	56.6	59.3	63.7	64.9	70.5
Total . . .	85.5	105.6	122.8	155.1	150.2	150.9	160.8	162.7

The next table has been compiled in order to show how, in most countries, expenditure on public works has gathered way in the years of recovery. The figures include, not only the expenditure shown in budgetary statements under the Ministry or Department of Public Works, but also investments in public undertakings, and expenditure defrayed out of special funds for various kinds of construction, as well as works undertaken for the relief of unemployment. For technical reasons, the table omits expenditure for new construction included under other departments than Public Works. As a general rule, the amounts involved are small; but in certain cases — as, for example, Italy — they are substantial (for Italy about 500 million lire in 1933/34).

Expenditure on Public Works, 1929-1936.

Country	Currency	1929 or 1929/30	1930 or 1930/31	1931 or 1931/32	1932 or 1932/33	1933 or 1933/34	1934 or 1934/35	1935 or 1935/36[a]	1936 or 1936/37[a]
Argentine . . .	Peso	.	194	96	91	93	137	120	120
Australia	£A.	5.5	2.1	1	2	2	3	...	...
Austria	Schilling	207	315	166	52	79	137	141	88
Belgium	Franc	773	937	864	584	910	936[a]	1,310	2,033
Bulgaria	Leva	1,334	739	417	273	232	199[b]	492	480
Canada	$C.	48	57	38	25	20	20	26	40
Czechoslovakia .	Kč.	1,745	1,862	2,502	1,699	1,513	1,312	1,755	2,369
Denmark	Krone	45	63	86	74	76	69	64	60
Italy	Lira	2,947	2,814	3,872	2,410	3,072	1,755[a]	1,679	1,790
New Zealand . .	£N.Z.	9	9.6	7.9	6.4	7.4	7.5	...	...
Norway	Krone	46	41	42	47	47	54	71	81
Poland	Zloty	453	368	242	154	221	199[a]	222	193
Spain	Peseta	603	478	513	850	707	689	669	...
Sweden	Krona	95	111	171	184	256	296	203	161
United Kingdom.	£	39	40	39	38	38	41	...	...

[a] Estimates. [b] Nine months.

Stress must be laid, as in other tables, upon the distinction between closed accounts and estimates. Actual expenditure tends to exceed estimates. Italy may again be cited as an example. The estimates for 1933/34 were 2,039 million lire: the actual expenditure was 3,072 million lire. It is obvious that the estimates for any country cannot be compared with closed accounts and must be taken with reserve.

There is, however, a clear tendency for public works expenditure to increase again in many, if not most, countries. Of the fifteen cited in the table, only Denmark and Sweden showed a clear decline in 1935/36. In most, the expenditure was greater than in 1929/30. The timing of such expenditure is a factor of great importance if public works are to be effective in counteracting depression.[1] In recent experience, expansion has developed on the up-swing rather than the down-swing of the cycle.

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[1] *Cf.* Arthur D. Gayer: "The Effectiveness of Public Works as a Recovery Expedient", *Index*, Vol. XI, No. 5, May 1936.

It is, perhaps, of interest to illustrate further the manner in which some Governments have endeavoured by extraordinary expenditure to relieve the distress consequent upon widespread and continued unemployment. No detailed information being available from Germany, the countries chosen for this purpose are Sweden and the United States. In the former, an emergency programme is now being wound up; in the latter, expenditure is still continuing on a great scale.

As will be seen from the table on the following page, the public works programme and other items of emergency expenditure undertaken by the Swedish Government reached a peak in 1934/35 and are now being tapered off. Repayment of the debt incurred for these purposes has been increasing as prosperity returned, and the complete liquidation of these special liabilities by the end of the financial year 1936/37 was foreshadowed by the budget statement. This repayment, when completed, will mark the end of a notable experiment in the use of Government credit to promote public works for the relief of unemployment in a period of depression. At the same time as the emergency expenditure is being wound up, ordinary development — *e.g.*, of communications — is increasing steadily.

Swedish Government Expenditure, 1929/30 to 1936/37.

Kroner (000,000's).

	Closed Accounts						Voted estimates	Draft estimates
	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36	1936/37
Effective expenditure	702.1	733.7	765.8	801.2	772.2	814.5	867.3	914.1
Repayment of debt	40.9	31.9	38.6	8.0	31.3	45.7	46.3	129.9
Total	743.0	765.6	804.4	809.2	803.5	860.2	913.6	1,044.0
Revenue receipts	778.5	782.9	736.5	740.9	782.6	902.8	926.9	1,000.3
Balance	+35.5	+17.3	–67.9	–68.3	–20.9	+ 42.6	+ 13.3	– 43.7
Capital outlay	68.1	52.9	89.5	182.2	169.2	288.0	142.4	123.1
Balance	–32.6	–35.6	–157.4	–250.5	–190.1	–245.4	–129.1	– 166.8
Proceeds of loans	22.2	41.9	68.2	175.9	259.3	226.9	120.3	107.8
Capital assets employed, including repayment of advances	3.3	8.1	73.2	150.8	5.6	78.0	8.0	59.0
Balance	–7.1	+14.4	–16.0	+76.2	+74.8	+59.6	–0.8	—

Public Expenditure on Social Welfare, Agriculture and Public Works in Sweden, 1929/30 to 1936/37.

Kroner (000,000's).

		Closed Accounts			Voted estimates	Draft estimates
	1929/30	1932/33	1933/34	1934/35	1935/36	1936/37
Effective Expenditure.						
Social Administration:						
Unemployment	3.8	44.0	26.0	10.3	39.5	22.7
Other expenditure	53.7	55.9	68.2	73.1	84.2	121.5
Unforeseen expenditure, including work for combating unemployment	1.3	12.9	1.8	18.4	1.0	1.0
Communications	62.2	83.2	86.7	95.4	92.6	101.0
Agriculture:						
Colonisation and improvements.	4.9	8.7	7.2	5.3	9.3	9.6
Price regulation	—	—	11.5	32.4	33.5	34.0
Loans granted to support agriculture	—	14.0	9.7	8.2	2.0	2.0
Other expenditure	23.3	26.9	24.5	26.5	28.4	29.5
Capital Expenditure.						
Investments, public undertakings	27.8	39.4	52.3	64.6	60.8	56.1
Loan funds	19.3	88.9	18.4	20.1	57.8	50.4
Advances:						
Cover of State Railway obligation	—	9.6	—	1.3	—	—
General public works . .	—	—	86.3	92.4	—	—
State buildings	—	—	2.8	7.9	—	—
Loan assistance	—	—	8.9	13.5	—	—
Advance to Swedish Grain Association	—	—	—	75.0	—	—
Other advances	—	4.3	0.5	7.2	—	—
Total	—	13.9	98.5	197.3	—	—
Other capital expenditure .	21.0	40.0	-0.1	6.0	23.8	16.5
Total	68.1	182.2	169.1	288.0	142.4	123.0
Repayment of debt	40.9	8.0	31.4	45.7	46.3	130.0
Grand total of capital expenditure	109.0	190.2	200.5	333.7	188.7	253.0

The budget of the United States includes the following Federal expenditure on public works:

$ (000,000's).

	Actual					Estimates	Draft estimates
	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36	1936/37
General	436.8	519.7	481.9	155.3	64.5	131.6	336.0
Emergency . . .				423.1	651.1	775.9	432.3
Total . . .	436.8	519.7	481.9	578.4	715.6	907.5	768.3

These figures, however, refer only to expenditure for Federal buildings, structures and other public improvements, including sites for construction. They do not include emergency expenditure for public works allotted from Federal appropriations to States, municipalities and other public bodies. Much of the recovery and relief expenditure shown under various headings in the next table consists, in fact, of public works in the common meaning of that term.

Relief and recovery expenditures in the United States as tabulated below consist, not only of direct appropriations of Treasury funds, but also of advances made by the Reconstruction Finance Corporation, and disbursements by the Home Owners Loan Corporation, the Tennessee Valley Authority, the Federal Land Banks, etc., from borrowing which is based ultimately on the public credit. The main items of such expenditure are summarised in the table that follows. The figures given in this table include what is classified as emergency expenditure in the daily Treasury statements, the general expenditure of the Agricultural Adjustment Administration, payments from the collections of processing taxes on farm products and Government subscriptions to Federal Land Bank stocks. Among items not included for 1935/36 and 1936/37 are:

$ (000,000's).

	Estimates 1935/36	Draft estimates 1936/37
Agricultural Adjustment Administration	20.0	20.0
Emergency Conservation work . .	25.0	220.0
Tennessee Valley Authority . . .	20.4	45.0

Other expenditure, estimated as $667.5 million for 1936/37, arising mainly from social legislation enacted in the 1935/36 session of Congress,[1] is also not included in the table. There is a supplementary estimate for these purposes amounting to $600 million for 1936/37, the corresponding figure for 1935/36 being $80 million.

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[1] Social Security Act, Railroad Retirement Act, Bituminous Coal Conservation Act, Postal Forty-hour Week, Elimination of Diseased Cattle, Soil Conservation, Agricultural Research and Extension, reduction of interest rate of Federal Land Banks, and amendments of previous legislation.

Recovery and Relief Expenditure in the United States.

$ (000,000's).

	Actual				Estimates	Draft estimates
	1931/32	1932/33	1933/34	1934/35	1935/36	1936/37
Agricultural aid [a]	.	212.3	865.9	872.3	765.6	473.2
Relief [b]	.	366.1	1,844.4	2,341.7	932.5	—
Public Works [c]	.		642.4	1,020.4	1,970.0	888.0
Aid to home-owners [d]	.	84.7	194.9	103.5	194.6	231.0
Reconstruction Finance Corporation [e]	.	613.9	565.8	-135.4	-215.0	-125.0
Tennessee Valley Authority	—	—	11.0	36.2	29.6	—
Miscellaneous	—	—	158.8	10.5	21.3	10.0
Unallocated balance of emergency appropriations as at October 31st, 1935, and available funds from R.F.C.	—	—	—	—	275.0	225.0
Total recovery and relief expenditure	767.6	1,277.0	4,283.2	4,249.2	3,973.6	1,702.2
Percentage of total budget	15	24	60	58	52	25

[a] Expenditure of the Agricultural Adjustment Administration, refunds of processing taxes, expenditure of the Farm Credit Corporation (including Federal Farm Mortgage Corporation) and of Federal Land Banks.

[b] Expenditure of Federal Emergency Relief Administration (including Federal Surplus Relief Corporation), the Civil Works Administration, Emergency Conservation work and relief to drought-stricken areas (Department of Agriculture).

[c] Administrative expenses of the Public Works Administration, Boulder Canyon, loans and grants to States, municipalities, etc., and to railroads, expenditure on public highways, river and harbour works, national defence and various other public works.

[d] Expenditure on Home Loan System, Emergency Housing, Federal Housing Administration, Resettlement Administration and Subsistence Homesteads.

[e] Expenditure of Reconstruction Finance Corporation for 1932/33 and 1933/34 represents net expenditure after deduction of earnings and repayments of loans. As from 1934/35, the minus figures represent the excess of earnings and repayment of loans over expenditure.

It will be seen from the preceding table that recovery and relief expenditure reached a peak in 1933/34 and has since declined somewhat, both absolutely and relatively to the total budget. Considerably greater reductions are estimated for 1936/37. From the introduction of this type of expenditure in the year 1931/32, the total appropriations for this purpose up to October 31st, 1935, had amounted to $17,359.6 million. The next table shows the actual distribution of this expenditure, and the credits, amounting to $6,539.7 million, which remained unexpended at October 31st, 1935. To this sum, further appropriations were added in the course of the 1936 session of Congress, and the President has asked for a sum of $1,500 million for relief in 1937/38.

Monies expended and available for Recovery and Relief.[a]

$ (000,000's).

	Total amounts provided to Oct. 31, 1935	Actual expenditure				Unexpended
		1933/34 and prior years	1934/35	1935/36 to Oct. 31, 1935	Total to Oct. 31, 1935	
Agricultural aid . .	1,674.3	820.0	164.0	164.6	1,148.6	525.7
Relief	5,226.1	1,882.3	2,341.9	557.7	4,781.9	444.2
Public works . . .	5,164.7	642.4	1,020.4	288.8	1,951.6	3,213.1
Aid to home-owners	761.9	238.9	103.6	51.5	394.0	367.9
R.F.C.	4,221.0	2,411.8	- 135.4	22.8	2,299.2	1,921.8
Tennessee Valley Authority	75.0	11.0	36.1	17.4	64.5	10.5
Miscellaneous . . .	212.7	159.0	10.3	10.8	180.1	32.6
Unallotted funds:						
By the President .	10.6	—	—	—	—	10.6
By Public Works administration .	13.3	—	—	—	—	13.3
Total . . .	17,359.6	6,165.4	3,540.9	1,113.6	10,819.9	6,539.7

[a] This table differs from that previously given by excluding certain expenditure in aid of agriculture.

When these varied examples of public expenditure, culled from the accounts of different countries, are considered as a whole, there seems to be ample justification for the title given to this section. Public expenditure tends to increase. Certain items which were compressed during the earlier years of depression — such, for example, as salaries — have been restored in many countries. There is constant pressure for social service expenditure, public works programmes have expanded and armament expenditure is increasing rapidly. From a budgetary point of view, the first advantages of recovery have been used to reduce deficits and then to increase expenditure rather than to diminish taxation. As will be pointed out in the concluding section of this chapter, one of the greatest economies in most countries has been derived from adjustment of public debts: how the renewed rise of expenditure is building up fresh debt burdens.

THE BURDEN OF INDEBTEDNESS.

Public expenditure is increasing again in many countries, while taxation is generally maintained at high levels. The economies carried through in the years of acute depression tend to be reversed when recovery becomes evident once more. Remissions of taxation are delayed as new expenditure tends to increase the demands upon the Treasury. The development of public works programmes, growing ordinary as distinct from emergency social service expenditure, and, in the last year or two, general rearmament, have, in most countries, postponed the hope of further tax remissions and have even made it necessary in some cases to impose new tax burdens. There can be few exceptions to the statement made by the British Chancellor of the Exchequer when winding up the Budget debate that a period of high taxation must be anticipated.[1]

One of the principal economies made in public expenditure during the depression years was reduction of payments on account of public debt. By conversion of long-term debt and short-term borrowing at very low interest rates, by the suspension of repayments and sinking funds, by the advantage gained in some cases from the depreciation of currencies in which foreign debts had been contracted, and in extreme cases by default or failure to transfer debt service, the budgets of a great many countries were substantially relieved. Reduced to their simplest terms, these various financial adjustments amounted to a writing-down, by agreement or by unilateral action on the part of Governments, of creditor claims that had in many cases become too heavy in a period of lower prices and reduced economic activity.

There is a general but not universal tendency for the nominal amounts of total public indebtedness to increase. The development varies so greatly from country to country and the forces at work are so divergent that any brief summary statement needs a good deal of qualification. Some of these forces may, however, be mentioned with illustrative examples drawn from different countries.

The caution must be repeated that there is, in some countries, unusual difficulty at present in ascertaining the nominal amount of the total debt. This is especially true of countries in which the floating, short-term, domestic debt has recently increased rapidly. The amount of this debt is not always disclosed and it may be some time before the short-term obligations can be funded.

In considering the diagrams on pages 238 and 239, which show the proportions of different forms of debt in various countries, attention should be drawn first to cases where foreign debt has diminished. One of the chief causes of this diminution has been the depreciation of important currencies in which debts

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[1] *The Times*, London, April 27th, 1936.

Public Debt in Certain Countries at the End of the Financial Year.

National currencies (000,000's omitted).

Country [a]	Currency	Month in which financial year ends	1932	1934	1935	1936
Argentine	Peso	XII	3,462	3,662	3,449	...
external [b]			943	1,234	1,223	...
Australia	£A.	VI	1,188	1,223	1,242	...
external [b]			602	593	592	...
Austria	Schilling	XII	2,816	3,519	3,699 [h]	...
external [c]			2,007	2,407	2,477	...
Belgium	Franc	XII	55,852	57,909	...	...
external [d] [i]			26,896	27,481	...	...
Bulgaria.	Leva	XII	22,693	21,840	22,180	...
external			16,404	14,676	14,618	...
Canada	$C.	III	2,832	3,141	3,206	...
external [b]			506	706	735	...
Chile	Peso	XII	3,851	4,133	...	...
external [b]			2,808	2,744	...	...
Czechoslovakia	Kč.	XII	35,437	38,151	409,337 [h]	...
external			7,017	7,300	8,160	...
Denmark	Krone	III	1,265	1,338	1,291	...
external			691	670	656	...
Finland	Markka	XII	6,223	4,879	4,629	...
external			5,490	3,804	3,156	...
France	Franc	XII	.	.	.	...
external			.	.	.	...
Germany	RM.	III	12,137	12,407	12,525	...
external			3,215	2,060	1,806	...
Greece	Drachma	III	43,023	42,966	44,985	...
external [b]			32,651	32,305	33,651	...
Hungary	Pengő	VI	1,804	1,624	1,693	1,723 [j]
external [e]			1,545	1,267	1,261	1,267
Italy	Lira	VI	97,268	104,230	107,269	...
external [b]			1,696	1,608	1,559	...
Japan.	Yen	III	6,412	8,683	9,613	...
external [b]			1,473	1,415	1,403	...
Netherlands	Gulden	XII	3,092	3,362	3,364 [k]	...
external			—	—	—	...
New Zealand	£ N.Z.	III	282	303	281	...
external [b]			164	164	163	...
Poland	Zloty	XII	5,041	4,692	4,757	...
external [f]			4,593	3,345	3,282	...
Roumania	Leu	III	.	135,460	139,052	...
external [g]			.	115,086	114,392	...
Sweden	Krona	VI	2,155	2,349	2,487	23,795 [l]
external			—	—	—	—
Union of South Africa	£ S.A.	III	264	274	274	E. 251
external [b]			160	165	157	E. 123
United Kingdom . . .	£	III	7,648	8,030	7,902	E. 8,024
external			1,091	1,037	1,037	E. 1,037
U. S. A.	$	VI	19,487	27,053	28,701	E.30,933
external			—	—	—	—

For the notes, see at foot of next page.

have been contracted, especially the sterling and dollar currencies. Where, as in Poland, the currency has retained its former gold parity, or, as in Hungary, where the nominal parity has been maintained for certain purposes, including debt payment, the value of foreign debt in terms of the local currency is considerably reduced. On the contrary, where, as in Denmark, the local currency has depreciated more than sterling or the dollar, the nominal value of the external debt tends to increase.

In the diagrams, the external debt of Australia and of New Zealand has been calculated at par. If allowance were made for the present currency depreciation in those countries, the nominal amount of external debt would be increased by about 25 %. Even apart from this, there has been an increase of external debt in Australia. In the table which follows, as well as in the diagrams, the totals given are those of the States and Commonwealth combined. If the latter alone were to be taken, there would appear to be a great increase of external debt, because, after July 1st, 1930, the Commonwealth took over from the States a considerable amount of debt which has since been converted on the London market.

Nominal Value of External Debt in National Currencies.

(000,000's.)

Country	Currency	1928/29	1931/32	1933/34
Australia. . .	£A.	219	602	593
Denmark . .	Kroner	722	691	670
Hungary [a] . .	Pengö	1,285	1,545	1,267
Poland . . .	Zloty	3,799	4,593	3,345

[a] Figures given by closed accounts.

Account must be taken also of the repatriation of debt which has been proceeding on a large scale in many countries, particularly those in which the transfer of debt service is partially suspended. The price of bonds upon which service was not transferred fell on foreign markets to such low levels that it became profitable for nationals of the country in question by one means or another to buy and repatriate the issues upon which interest could be collected in national currency. While it is not possible to measure the extent of this repatriation, it is known to have been proceeding on a large scale. Its effect is clearly to reinforce the strong tendency towards the diminution of foreign and the increase of domestic debt.

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[a] Unless otherwise stated, foreign debt represents the accounts converted into the home currency at the rate of exchange obtaining on the dates given.

[b] Foreign debt shown at par.

[c] Foreign debt shown at the average private clearing rate.

[d] Foreign debt shown at par in 1932 and 1934.

[e] Distinction between domestic and foreign debt is made according to residence of bondholders or creditors.

[f] Foreign debt calculated at rate of exchange, with exception of the $ *tranche* of the 7 % 1927 loan, which is shown at par.

[g] Foreign debt shown at par except debt, in United States $ and £, shown on March 31st, 1933, and March 31st, 1935, at $1 = 100 lei, £1 = 560 lei and 510 lei respectively.

[h] Provisional.

[i] Until 1933 the financial year ends in March.

[j] March 1936.

[k] June 1935.

[l] February 1936.

E. = estimates.

There has been a widespread tendency to suspend amortisation payments and sinking funds. Thus, in the United Kingdom, the sinking-fund payments were £66,800,000 in 1930/31, but fell to £12,300,000 in 1934/35, and to £12,500,000 in 1935/36. The tendency was strongest, however, in the case of countries where there were transfer difficulties in respect of foreign debt. In these, the suspension of amortisation payments was a natural first measure of financial relief. The nominal amount of the debt therefore remained, while debt service fell. The effect of conversion operations in some cases was in the same direction. A somewhat higher debt total resulted, but the annual interest payments were reduced.

Finally, attention must be drawn to the increase in the nominal total of domestic debt which is so marked a feature of the present financial situation. The increase of domestic borrowing has in many countries gone far to counteract the diminution of foreign debt.[1] The nominal total of public debt has, in fact, increased in most countries.

More important, however, than the nominal amount of indebtedness is the annual obligation in respect of debt service, including both interest payments and amortisation. The available statistics are summarised in the following table.

Unfortunately, this table needs a great deal of qualification and explanation. It tabulates the amounts shown in official statements; but there is no uniformity in the method of presentation followed by different countries. The *Statistical Year-Book, 1935/36,* from which the figures are taken, gives for each country a series of explanatory notes which are too long to be reproduced here, but are necessary if any detailed use is to be made of the table. In many cases the figures shown represent only the charges upon the budget and not the amounts paid to creditors. Thus, for Bulgaria, the figures given for debt

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[1] A calculation made for Finland at par rates of exchange, thus excluding the effects of exchange fluctuations, is summarised below:

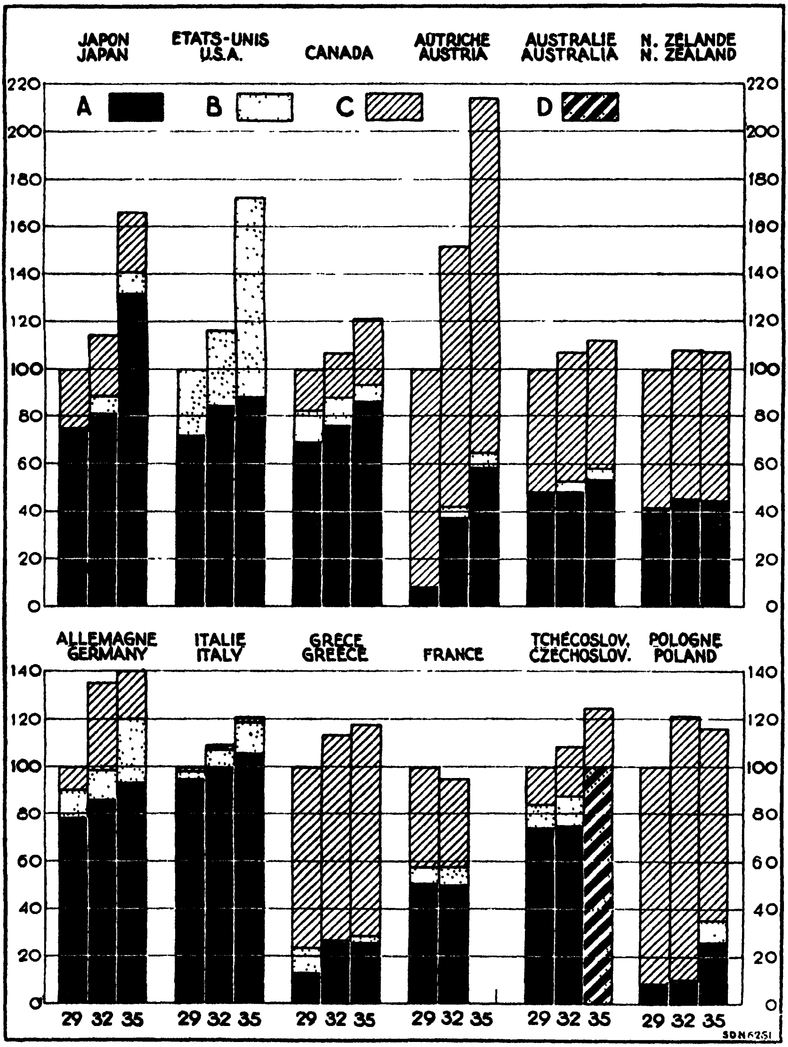
(Markka, 000,000's.)

	Dec. 1930	Dec. 1932	Dec. 1933	Dec. 1934	June 1935
Foreign debt	2,670	2,783	2,743	2,342	1,940
Domestic debt . . .	357	689	765	1,040	1,354

The Composition of Public Debt.

A Domestic consolidated. **C** Foreign.
B Domestic floating. **D** Total domestic.

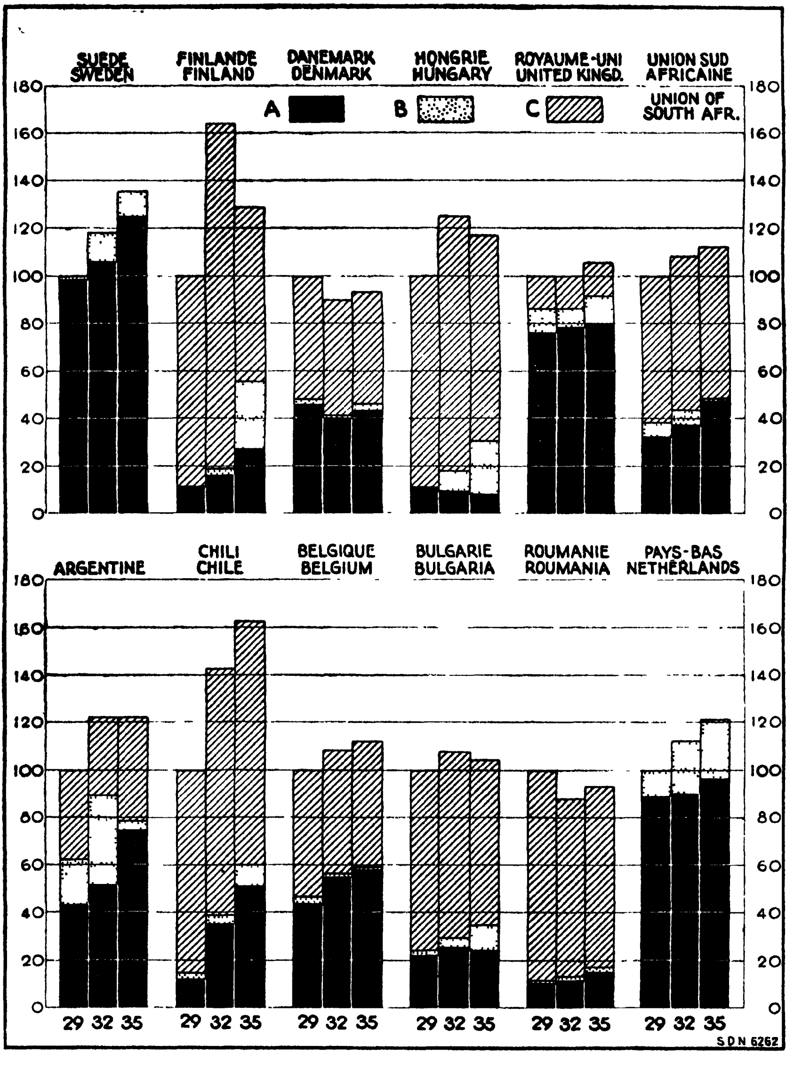
(1929 = 100.)



The Composition of Public Debt.

A Domestic consolidated.
B Domestic floating.
C Foreign.

(1929 = 100.)



Annual Debt Service (Interest and Amortisation Payments) of Certain Countries, 1932-1936.

National currencies (000,000's omitted).

Int. = Interest. Am. = Amortisation. E. = Estimates. P.R. = Provisional results.

Country	Currency	1932 or 1932/33		1934 or 1934/35		1935 or 1935/36		1936 or 1936/37	
		Int.	Am.	Int.	Am.	Int.	Am.	Int.	Am.
Argentine	Peso	286		201		201			
Australia	£A.	52	8	49	7	E. 45	.		
Austria	Schilling	115	66	143	94	E. 127	E. 49	E. 136	E. 52
Belgium	Franc	E.2,769		1,929	755	E. 1,785	E 1,726		
Brazil	Milreis	E. 512	E.291	E.428		E.426		E.501	
Bulgaria	Leva	1,027	136	E. 711	E. 189	E. 936	E. 185	E. 907	E.413
Canada	$ C.	134	3.5	138.5	3.7	E. 134	E. 3.5	E. 136	E. 4
Czechoslovakia [a] .	Korona	1,549	1,095	1,591	101	E. 1,676	E. 292	E. 1,689	E.292
Denmark [b]. . . .	Krone	60	129	69.5	105	E. 68	E. 35		
Estonia	Kroon	2.8		2.9		E.3.0		E.2.8	
Finland	Markka	419	58	284	394	E. 261	E. 93	E. 210.5	E.365
France	Franc	E.9,168		E.10,817		E.11,226		E.9,917	
Germany [c] . . .	RM.	253	664	576		.			
Greece	Drachma	P.R.1,279	P.R.295	2,883	117	E2,909	E. 26		
Hungary	Pengö	52	6	43.5	28	E.87			
Italy	Lira	5,193	270	E. 5,345	E. 1,286	E. 4,690	E. 272	E. 5,579	E.387
Netherlands . . .	Gulden	109	366	127	920	119	37		
New Zealand . . .	£N.Z.	11.7	1.4	11.0	1.8	E. 10.3	E. 1.8		
Norway	Krone	90	33	78	35	E. 81	E. 38		
Poland	Zloty	123	64	111	66	E. 119	E. 71	E. 121	E. 56
Portugal.	Escudo	294		296	28	—	—		
Roumania [d] . . .	Leu	5,164		E.2,249		E.2,954			
Spain	Peseta	834	78	923	91	E. 964	E. 114		
Sweden	Krona	92	8	98	46	E. 98	46	E. 95	130
Switzerland [e]. . .	Franc	88	309	88	59	E. 88	.	...	...
Turkey	£T.	28.6		28.6		E.27.0			
Un. of S. Africa .	£S.A.	9.6	0.7	10.8	1.6	E. 10.7	E. 0.7	E. 10.2	E. 0.8
United Kingdom .	£	308	26.3	212	12.3	212	12.5	E. 224	...
U.S.A.	$	689	462	822	574	E. 742	E. 552	E. 805	E.580
U.S.S.R..	Rouble	E. 990		E.1,702		E.1,815		E.2,702	
Yugoslavia [f] . . .	Dinar	E. 966		E. 689		E. 946		.	

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[a] Regular redemption of domestic funded debt (except Labour Loan, 1933) has been suspended as from March 1933 until December 1935.

[b] Redemption of domestic debt includes extraordinary redemption of 59.9 for 1934/35.

[c] Not including service of Dawes and Young Loan.

[d] Redemption of foreign and domestic debt suspended as from February 1933, except the 4% External Loan, 1922, the 7% Stabilisation Loan, 1929, the 7½% Development Loan, 1931. Transfer suspended as from August 1933. Under the agreement of July 1934, redemption of foreign debt is suspended from 1934/35 to 1936/37 and interest reduced.

[e] Not including Federal Railway debt.

[f] The transfer of the service of foreign debt was suspended in 1932. According to an agreement reached in March 1933, redemption of foreign debt was suspended until October 1935.

service include the amounts the transfer of which has been suspended. In Greece, the figures for 1934/35 and 1935/36 also include the total amount of interest due on foreign debt, of which only 35% was transferred. In the same way, the figures for Hungary, Turkey and Yugoslavia represent the service due, not the amounts paid. In Roumania, on the other hand, the estimates for 1934/35 and 1935/36 do not include the unpaid service. In the case of many South-American countries, not all the debt service shown was, in fact, transferred.

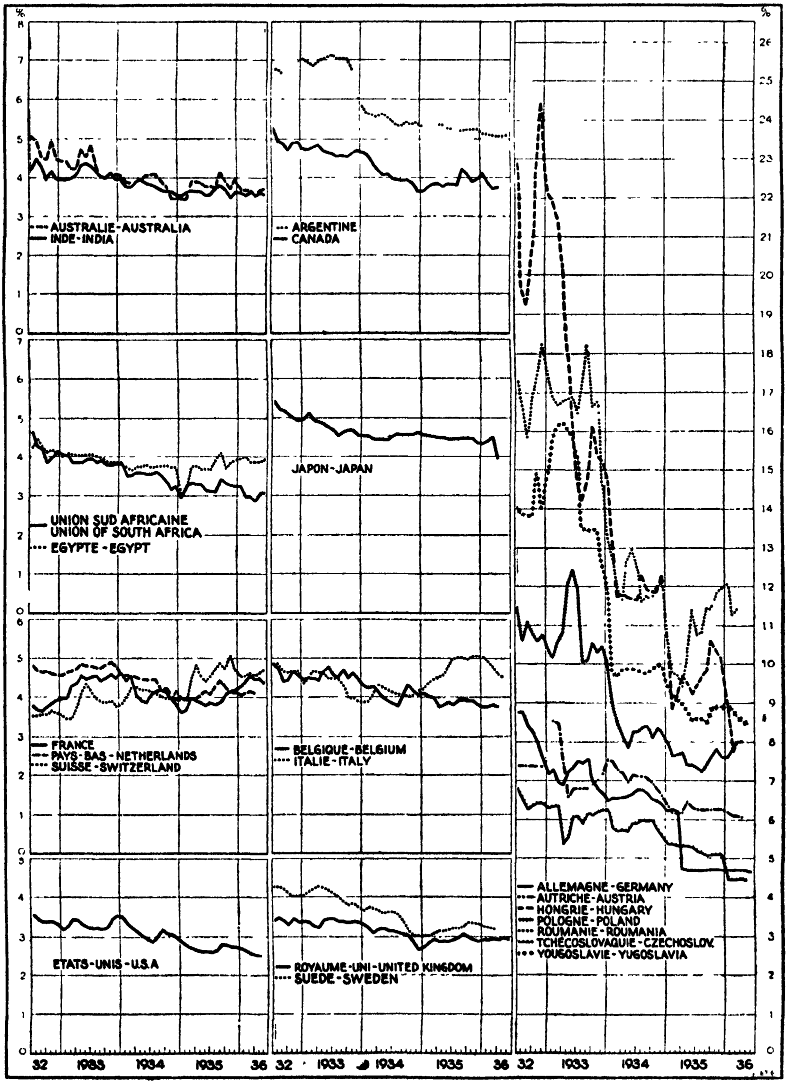
These remarks may serve to draw attention to the first factor to be taken into account when considering debt service. There is in many countries continued partial or complete default, in payment or suspension of transfer, of amortisation and interest payments. A survey of the extent of default on foreign debts is contained in the annual reports of the Councils of Foreign Bondholders in the United Kingdom and the United States. For the special case of loans issued under the auspices of the League of Nations, the reports of the League Loans Committee and the quarterly reports of the Financial Committee and of the League representatives in the countries concerned are available.

Apart from default of one kind and another, there have been powerful factors making for lower interest charges in recent years. In the first place, account must be taken of the relief afforded to certain debtor countries by the depreciation of the foreign currencies in which debt service must be paid. Thus, in Poland, the interest payable on foreign public debt fell from 134.3 million zloty in 1931/32 to 83.7 millions in 1933/34, while the amount budgeted for 1935/36 was only 66.4 millions. This reduction is due partly to the depreciation of the dollar, sterling and lira and partly to the suspension of war debt payments.

There has, in addition, been a general lowering of interest rates. Governments have been able to take advantage of this situation first of all by conversion operations. The example was set by the United Kingdom, where the reduction of interest charges on the national debt from £308 million in 1932/33 to £212 million in 1935/36 was largely due to the conversion of about £2,000 million in the middle of 1932.

The widespread lowering of interest rates has enabled many other Governments to carry through large conversion operations in the last year or two. Space does not permit of a complete account of these operations. It may suffice to recall the Belgian conversion described in the preceding *Survey* and to point out that, in the first six months of 1936 alone, conversions of both domestic and foreign debt, involving substantial economies

Actual Percentage Yield of Bonds.



in debt service, were carried through by Australia[1] (which in June 1936 successfully completed the last for a time of a long series of conversions amounting in all to £198.5 million in three years), the Argentine, Belgium, Canada, Czechoslovakia, Denmark, Finland, India, Japan, New Zealand, Norway, Poland, Siam, Sweden, Switzerland, the United Kingdom and the United States. Where the conversion operations have been carried out by the issue of perpetual bonds at a low interest rate, the saving of interest is permanent. Much Government borrowing at low interest rates, however, is either for short or medium terms and a hardening of rates may in the future cause higher interest charges. Thus, it cannot be foreseen how long Treasury bills issued in the United Kingdom will continue to be absorbed at very low rates, or at what rates the large issues of five-, ten- and fifteen-year bonds in the United States will have to be renewed when they fall due.

The general tendency for interest rates to fall is illustrated by the diagram on the preceding page showing the actual percentage yields of bonds in various countries. Higher yields were registered in 1935/36 in Italy, in the gold-standard countries, and in Roumania, while a less marked upward tendency was noticeable in Egypt, Canada, Sweden and the United Kingdom. Particularly important is the marked fall in 1934 in the European countries. The possibility of raising domestic loans at more reasonable rates of interest has made possible the rapid growth of domestic debt in the last year or two.

This rather ominous tendency towards the contraction of new domestic debt in so many countries is perhaps the most significant development of public finance in 1935/36. The budgetary economies resulting from default, conversion, currency depreciation in creditor countries, and lower interest rates, are being counteracted by the contraction of new obligations. As the preceding table shows, the interest obligations of many countries increased in 1935/36. A hardening of interest rates, coupled with the need for funding short-term debt, would increase the burden on these countries and add others to the list. The list of countries where interest obligations in 1935-36 were greater than in 1931/32 is already a long one and includes Austria, Canada, Czechoslovakia, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Japan, Netherlands, Spain, Sweden, the United States and the Union of Soviet Socialist Republics.

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[1] *The Times*, June 4th, 1936. Since October 1932, twelve conversion operations have been carried through, by which the saving in annual interest totals £3,174,846, equivalent to £A3,979,000.

Chapter IX.

MONEY AND BANKING.

The Metallic Base.

The present chapter attempts briefly to summarise monetary and banking developments in the past year. It begins with the precious metals, gold and silver, that have for centuries provided a metallic base for monetary and banking systems. After reviewing changes in the quantity, value and functions of the precious metals in monetary use, it describes summarily certain important changes and trends in banking organisation and then reviews the banking statistics of 1935/36. A further section deals with the investment as distinct from the commercial aspects of the money market. Finally, the relations between national monetary and price systems are studied in the section dealing with international equilibrium.

Even before the abandonment of the gold standard, a great part of the world was, in reality, on an accounting standard, the price of gold as fixed by mint parities being at least as much determined by as determining the amount of credit in use and therefore the average movement of commodity prices. Since the abandonment of fixed gold parities, or their alteration, the price of gold has changed in terms of the unit of account; but commodity prices continue to be reckoned in the unit of account and therefore have not responded to the alteration of gold prices. It is, indeed, probable that in the longer run, provided gold continues in demand for monetary purposes, its increased production will exert an important influence upon the average levels of commodity prices, but the extent of that influence will be determined by the place assigned to gold in the reorganised national credit systems.

The keen demand and high price for gold that have persisted in the money markets of the world are due in great part to purchases by central banks and equalisation or stabilisation funds. In London, which is still the principal and freest gold market, the price of gold approximates to the depreciated value of the sterling "unit of account" as measured by the currencies which have retained or resumed a fixed relation to gold. This fact suggests that the market anticipates a renewed use of gold for monetary purposes and a re-linking of its price with the unit of account at a ratio approximating the present exchange depreciation. The variability of the world price, which is in striking contrast with its fixity when the international gold standard was in operation, is due, not only to the fact that it is stated in a currency (sterling) the exchange value of which fluctuates from time to time, but also to the premium which private individuals are willing to pay in order to obtain gold for hoarding. The extent to which bullion coming on to the market is absorbed by equalisation funds or by private hoarders cannot be exactly measured. From time to time, the British Equalisation Account controls the exchange market by buying, for example, French francs and exchanging them for gold, while some sellers of francs use sterling to buy gold for hoarding. If the Account did not intervene in these circumstances, sterling would appreciate. When it is held firm by the Account's operations, part at least of the premium or discount on gold represents buying or selling pressure on sterling.

These brief comments upon the movements of the price of gold serve to indicate the principal uses for which gold is in demand at the present time. Apart from use in the arts and industry, and the continued demand for central bank reserves (at mint parity in the case of gold-standard countries and presumably at or near the exchange equivalent of mint parity in other cases), there is a demand for gold in the regulation of short-period exchange fluctuations and an enlarged private demand for gold as a store of value.

The demand for gold in the regulation of short-period exchange fluctuations is mainly exercised by the British Equalisation Account, London remaining, not only the principal gold market, but also the main centre of foreign-exchange operations. There is, however, apart from the particular technique followed, no essential difference between the traditional use of gold from central bank reserves to settle international balances and the purchases or sales of gold by the Equalisation Account as a means of controlling exchange fluctuations. The main demand for gold therefore comes from central banks. It is theoretically conceivable that a technique could be developed by which balances on international account might be settled by credit transfers pending adjustments of national prices and interest rates, either with or without exchange alteration. In the long run, any persistent advantage or disadvantage in the international balance of any country must be settled by price (including interest) adjustments, and there is no theoretical reason why the transfer of gold should be necessary to adjust short-term fluctuations in the balances of payments. Such transfers, however, in the present state of international banking practice are more convenient and practical, and it is evident from its continued accumulation by the great central banks of the world that gold will continue in the near future to be in demand for this purpose.

It is therefore relevant to consider the influence which the changed price of gold and the increased production thereby evoked may have upon the standard of value and the levels of commodity prices as measured by that standard in the near future. Since 1929, the annual quantity of gold produced in the world has increased by 50%. Measured in terms of the new depreciated units of account, the dollar and sterling, the value of annual production has increased by 150%.[1] Moreover, so far from these figures representing the culmination of the increase in production stimulated by lower costs of mining and higher gold prices, they are only the beginning. The largest goldfield is in South Africa, which in 1929 produced half and in 1935 a third of the world total. With higher prices, production on the Rand fell slightly because it paid better to use existing plant to crush ores of a lower gold content rather than to extract the lower but richer ores. Meantime, new plant which has been erected will shortly enter into production. It is authoritatively estimated that, if the Union of Soviet Socialist Republics continues to produce the ten or eleven million ounces which Soviet experts predict for 1940 and production in the rest of the world merely remains at its present figure, then the world production of gold may well exceed 40 million ounces (1,244,000 kgs.) per annum as compared with about 30 million ounces (933,000 kgs.) in 1935, 20 million ounces (622,000 kgs.) in 1925 and 3½ million ounces (108,850 kgs.) in 1850.[2]

If gold continues to be used as in the past, not only as a means of international payments, but also as a basis for credit issues, the result will probably be a substantial cheapening of the national units of account or, in other words, a prolonged and considerable rise in the average levels of commodity prices. Such a rise occurred after the Californian and Australian gold discoveries in the middle of the last century, and again after the opening-up of the Rand in the 'nineties. In neither of these cases, however, was the stimulating effect of lowered mining costs reinforced by substantial depreciation of the principal units of account, as well as by marked economies in the use of

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[1] Bank for International Settlements: Sixth Annual Report, Basle, May 11th, 1936.

[2] Union Corporation Ltd.: Report for 1935, page 5.

World Gold Production, 1929-1935.

(Kilogrammes.)

Country	1929	1930	1931	1932	1933	1934	* 1935
Union of South Africa	323,860	333,316	338,337	359,511	342,565	325,960	335,110
U.S.S.R. [a]	25-33,000	33-44,000	32-52,000	38-59,000	77-85,000	110-130,000	150-170,000
Canada	59,977	65,382	83,789	94,691	91,734	92,442	102,117
U.S.A. [b]	64,042	66,521	69,197	72,472	71,654	86,430	98,484
Australia	13,286	14,513	18,510	22,212	25,826	27,445	27,900
Southern Rhodesia	17,443	17,033	16,551	17,858	19,984	21,497	22,600
Mexico	20,276	20,808	19,378	18,180	19,836	20,572	21,223
Japan	10,422	12,068	12,475	12,497	13,701	15,094	17,800
Philippines	4,996	5,574	5,666	7,598	10,110	10,585	13,400
Belgian Congo [c]	5,375	6,093	7,425	8,762	9,956	11,672	13,000
Korea	5,553	6,186	9,031	9,701	11,508	12,427	12,400
Gold Coast	6,465	7,493	8,138	8,670	9,514	10,140	11,050
Colombia *	4,248	4,937	6,043	7,721	9,276	10,704	10,233
India	11,315	10,239	10,277	10,252	10,454	10,020	10,100
Chile	1,028	645	665	1,185	4,584	7,392	8,562
New Guinea	1,314	705	968	1,970	3,790	6,728	7,800
Sweden	1,089	1,051	1,917	4,120	8,978	7,673	5,600
New Zealand	3,500	3,684	3,956	5,066	4,926	4,880	5,000
Roumania [c]	2,213	2,672	2,741	3,305	3,635	3,469	4,464
French West Africa	66	201	950	2,066	2,138	3,039	3,901
Brazil	3,415	4,472	3,933	3,585	3,664	3,449	3,704
Peru	3,734	2,766	2,494	2,678	3,010	3,075	3,100
Venezuela	E 1,446	E 1,827	2,233	2,847	2,977	* 3,000	...
France	1,795	1,337	2,082	2,865	2,930	3,157	...
Central America	1,655	1,806	2,107	2,558	2,708	* 3,400	...
Yugoslavia	1,033	1,223	1,212	1,507	2,204	2,305	2,445
Netherlands Indies	3,412	3,435	3,113	2,425	2,454	2,232	2,120
Tanganyika	282	344	396	800	1,011	1,325	1,550
French Guiana (E)	1,522	1,367	1,477	1,506	1,493	1,906	1,474
Other countries	4,900	5,500	5,940	7,890	10,500	13,980	...
Total, excluding U.S.S.R.	579,600	603,200	641,000	696,500	707,100	726,000	770,000

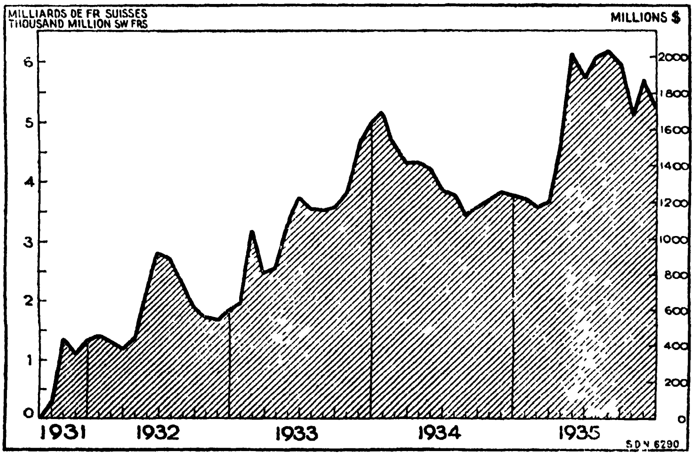
[a] Estimates, the publication of official absolute figures was interrupted in 1927.
[b] United States, including Alaska; 1935, mine production.
[c] Industrial production.

E Exports.
* Estimates.

gold, such as the withdrawal of gold coin from general circulation and the release of large hoards in India and China.

The gold market, however, continues to be abnormal. The Annual Report of the Bank for International Settlements estimates that the increased production of gold in 1935 (12%) was just sufficient to counterbalance the decline in the amount released from hoards in the Far East. The amount of gold collected in Italy is not known, but it represented a further addition to the stock of monetary gold. Barely 5% of the new production was needed for industrial purposes. About 44% went into bank reserves, increasing the total monetary gold stock by about 5%. The remaining 50% of new gold production " disappeared ", partly into the concealed reserves of central banks, partly into equalisation fund holdings, and partly into private hoards. At the end of 1935, about 1,700 million dollars' worth of gold (at the new price of $35 per ounce), or 5% of the world's monetary stock, was estimated to have "disappeared" from monetary statistics in these various ways since the breakdown of the international gold standard in the last quarter of 1931. If and when normal monetary conditions are restored, it is probable that a substantial part of this gold may " reappear ". With the prospect of this addition to the metallic base (which may be counterbalanced by renewed hoarding in the Far East), enhanced gold production all over the world, the pursuance of cheap credit policies and increasing Government expenditure, the probability of rising commodity price-levels is clear.

Gold "disappeared" (since September 1931).[a]



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[a] Bank for International Settlements: Sixth Annual Report, page 27.

While gold production has been stimulated and increased gold reserves made available, the United States Government has endeavoured throughout the past year to carry out the mandate given to it by the Silver Purchase Act of June 1934. The objective of this Act was to increase the proportion of silver to gold in the monetary stocks of the United States until it reaches and is maintained at a quarter of the monetary value of such stocks. In June 1934, when the Act was passed, the United States held gold and gold certificates valued at $7,856 million. At the end of 1935, gold holdings had risen to $10,125 million.

During 1934, the Treasury bought altogether 317 million ounces of silver, in 1935 the amount bought was 544 million ounces; but, if no further influx of gold took place, it was estimated that a further 1,000 million ounces of silver were still required to fulfil the provisions of the Act. World production in 1934 was about 180 million ounces and, under the stimulus of American buying, it rose by about 40% in 1935. Even so, it is apparent that the fulfilment of the Silver Purchase Act will take a long time, especially if the gold stock goes on increasing, unless the price is further raised or the accumulated stocks in other countries, such as Spain, India and China, become the property of the United States. The agreement reached at the Monetary and Economic Conference by which the sale of demonetised silver is regulated lapses at the end of 1937. Meantime, under the impact of American purchases and speculative activity based upon the expectation of their continuance, the world-market price for silver rose from just over 19 pence per ounce in June 1934 to over 35 pence per ounce in April 1935 and then declined to under 20 pence per ounce in the first months of 1936. The United States Treasury, however, continues to buy silver mined in the United States at 77.57 cents per ounce.

In these circumstances, China, after suffering a substantial exchange appreciation and price deflation, in the course of which the United States exports to China were halved, was forced off the silver standard in November 1935 and has since maintained a managed currency. The Hong-Kong and Manchukuo currencies were also forced off their silver basis, while Mexico and Peru were forced to take steps to safeguard their subsidiary coinages.

Up to the beginning of December 1935, the United States bought regularly on the London market, and the sudden stoppage of buying orders disorganised the market, so that for the first time in many years no price could be fixed. Silver purchases were afterwards effected by direct treaty with China and silver-producing countries, including Mexico and Canada. While the existence of a buyer ready to absorb their total production has benefited silver producers, not only in the United States, but in several other countries also, the outlook of the market for existing stocks of silver and for production not taken by the United States is obscure. The Eastern exchanges have been dislocated and the United States silver policy has "made China, Hong-Kong and Manchukuo give up their age-long link with silver — a venture of which the end has not yet been seen ".[1] Meanwhile, the United States has added a considerable reinforcement of silver reserves to its already redundant stock of monetary gold.

THE BANKING STRUCTURE.

The most important legislation in respect of central banking during 1935 was the United States Banking Act, 1935, reorganising the Federal Reserve system, the reorganisation of the Bank of Italy, the creation of a new central bank in the Argentine, and the steps taken to reorganise the Central Bank of China as a Central Reserve Bank. The scope and importance of these various measures are more fully described in another publication of the Economic Intelligence Service.[2] The Reserve Bank of India began operations on April 1st, 1935. The statutory reserve requirements of the Bank of Danzig were reduced from 40 % to 30 % on May 1st, 1935; a Decree of January 13th, 1936, reduced the legal minimum reserve ratio of the Bank of Bulgaria from 33⅓ % to 25 % and abolished the progressive tax and automatic increases of bank rate prescribed when the ratio fell below the minimum. While there is this definite tendency to equip countries with central banking machinery and to reorganise existing central banks so as to give them greater elasticity, it is obvious that the importance of central banking functions is less in countries where the money market is undeveloped than in the powerful creditor countries.

Since monetary functions are now so largely affected by credit operations, the organisation and control of credit is more vitally necessary. Coinage has for centuries been a prerogative of Governments; but, in most countries, commercial banking has developed from private initiative. Central banking tends to occupy a middle position, the public responsibilities, even of those central banks which are privately owned and controlled, being exercised within the limits of enabling legislation or charters. There is, however, a great variety of organisation among existing central banks. Some of the oldest, such as the Bank of England and the Banque de France, are privately owned; most of the newly created central banks, in Europe and elsewhere, have been given independent status by the subscription of private capital.[1] The Reserve Banks of Canada, India and New Zealand were also founded as public corporations, private shareholders being given majority control of their directorates.

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[1] Bank for International Settlements: Sixth Annual Report, page 19.

[2] *Money and Banking, 1935/36*. *Cf*. also Sixth Annual Report of the Bank for International Settlements, and, for the United States Banking Act, the following articles:
Frederick A. BRADFORD: "The Banking Act of 1935", *American Economic Review*, December 1935; and
John H. WILLIAMS: "The Banking Act of 1935", *American Economic Review*, Supplement, March 1936.

There has, however, been a definite tendency for State control over central banking to be extended. For example, the Reserve Bank of New Zealand has been nationalised and the Government of Canada has announced its intention of nationalising the Reserve Bank of Canada. The National Bank in Copenhagen has been reorganised as the National Bank of Denmark and has become a State Bank. The Bank of Italy also became a public institution as a result of the banking reorganisation carried through in March 1936.[2] Its paid-up share capital is to be bought from the private shareholders and acquired solely by the saving banks, credit institutions and public banks, charity and insurance institutions. The control of the Banque de France was also reorganised in July 1936.

The exigencies of monetary problems in recent years and the increased intervention of the State in such fields as exchange control, and, indeed, virtually every aspect of international financial relations, have necessarily resulted in close collaboration between Treasuries and central banks. Where intervention has been pushed furthest, as in Germany, whatever the form of organisation, the central bank has functioned as an organ of Government policy. The evolution of new relationships is illustrated also in the United Kingdom, where the Exchange Equalisation Account is operated by the Bank of England on behalf of the Treasury, and in the United States, where the Reconstruction Finance Corporation and the Treasury have functioned in collaboration with the reorganised Federal Reserve Board.

It is significant in this respect that the specialised functions of the most highly developed money markets have been considerably affected by such recent developments as the serious decline of international trade, the paralysis of international long-term lending, new machinery for the collection of international debts and the financing of international trade and new methods of capital flotation. The issue houses, acceptance houses, the bill market and discount market and even the Stock Exchange have had to adapt themselves to a new situation.[1] Credit organisation has never been static. With great adaptability, the money market has from time to time met the changing needs of the business community; but increased State intervention in the monetary field, and especially in international financial relations, has tended to reduce the rôle of private institutions and to strengthen the tendency towards centralisation of credit operations. Clearing and payments agreements are negotiated and exchange controls operated by central banks in close liaison with Treasuries. Embargoes and controls of the market extend into such fields as capital issues, exchange speculation and traffic in the precious metals. It is, perhaps, too soon to estimate the outcome of these recent developments; but it is obvious that they have reinforced the trend towards centralisation and public control of credit in many of its most important aspects.

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[1] As, for example, in Switzerland, Roumania, Poland, Lithuania, Italy, Hungary, Germany, Estonia.

[2] *Money and Banking, 1935/36*, Vol. II, Italy.

The reorganisation of commercial banking, as distinct from emergency relief, has continued in many countries. A detailed survey of such reorganisation — for example, in Belgium, Germany, Roumania, Switzerland and the United States during 1935 and 1936 — is impossible here.[2] But it is important to record the fact, as stated in the last annual report of the Bank for International Settlements, that "experience has shown that nowhere have the authorities been able to abstain from intervention if faced with serious difficulties in domestic banking. When a breakdown threatened, measures of immediate relief had often to be improvised and, in particular, State aid was given to supplement normal credit facilities. But the necessity for attacking the evil at its roots provided the urge for the adoption of reforms designed to strengthen the permanent banking machinery and prevent as far as possible the repetition of errors which recent events revealed." [3]

It is obvious from the developments briefly touched upon in this section and from the controversy concerning monetary and banking organisation that has become a political issue in many countries that the social implications of credit regulation are leading to a recognition of public responsibility for credit policy in its monetary aspects. The actual manner in which credit policy should be controlled, the form of central and commercial banking organisation likely to yield the best economic service, the degree of independence from political organisation which it is desirable to maintain, are subjects of controversy upon which it is not necessary to enter here. Indeed, the whole problem of credit organisation becomes more clearly a problem of economic politics. It is therefore necessary in this *Survey* merely to note the trend of development towards increased public interest in and responsibility for credit policy before passing to the survey of banking statistics which is the subject of the next section.

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[1] *Cf.* Leo Grebler: "The Changing Significance of the Stock Exchange", *Index*, April 1936.

[2] A summary of the main developments in each country is contained in *Money and Banking, 1935/36*, and the preceding volumes entitled *Commercial Banks.*

[3] Report, *op. cit.*, page 56.

THE LIMITATIONS OF MONETARY POLICY.

From the mass of statistical and other information available concerning banking developments in various countries, it is not easy to present an accurate summary or to outline the main trends. Statistics of bank deposits and advances, the division of banking activities, measurements of the velocity of circulation of bank credit and similar material are now provided in abundance for most countries. Not only central banks, but a great number of commercial banks, as well as Government statistical offices, issue regular reports explaining and interpreting economic events from the monetary angle. To review this mass of material even in broad outline would be to recapitulate from the monetary side the survey of economic developments contained in the remaining chapters of this volume. It is less necessary to do this because another publication of the Economic Intelligence Service is introduced by such a monetary review.[1]

This publication surveys recent monetary experience in three groups of countries. In the first group, monetary expansion has occurred mainly as a result of banking policy. In the second, expansion has been the result primarily of deficit financing by Governments. In the third, monetary contraction continued throughout 1935 and 1936. Typical countries illustrating the development of these three groups are the United Kingdom, the United States and France. While a broad distinction may be drawn between these groups, it is not always clear in the case of certain countries. Almost universally there has been a combination of expansion and contraction. This combination is well illustrated by the case of Australia, one of the first countries to emerge from the depression. Budgetary economies, wage-cuts and debt conversion played a rôle in the revival of Australian confidence, together with exchange depreciation and central bank purchases of Treasury bills. Many of the policies followed in the first group of countries — *e.g.*, exchange depreciation — were common also to the second group. Public works policies involving unbalanced expenditure are to be found in the third as well as the second group. The true distinction, indeed, relates to the revival or non-revival of business confidence and the extent of its dependence upon Government spending.

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[1] *Money and Banking, 1935/36*, Vol. I, "Monetary Review".

In the first group, a balanced budget and administrative economy were regarded as essential factors in the creation of business confidence and the revival of productive and investment activity once the incubus of deflationary pressure had been removed by the abandonment of the gold standard, adherence to which had strained the external balance of payments.[1] There was, naturally, a variety of monetary measures taken in the various countries which may be grouped with the United Kingdom in this respect. Monetary expansion in the United Kingdom was made possible mainly by the Bank of England's buying securities and thus swelling the cash bases of commercial bank credit. A contributory factor was the acquirement of gold through the Exchange Equalisation Account's operations in the exchange market and through direct purchases by the Bank. In Sweden, the somewhat similar acquisition of gold and foreign exchange as a consequence of an improved balance of international payments appears to have been more important than central bank policy. In South Africa, the enhanced prosperity of the gold-mining industry, aided by a return flight of capital after the currency was depreciated, was the most important factor. The characteristic developments in a number of other countries, such as Australia, Canada, New Zealand, the Argentine and Denmark, show various combinations of central bank and commercial bank action, capital inflow and improved international balances.

In all of them, however, the decisive development was a faster circulation, as distinct from a greater volume, of bank credit. The stages of revival are summarised in the " Monetary Review " previously cited: " The abundance and cheapness of money which characterised the revival of business after 1932 was based only to a limited extent, if at all, on the creation of new credit through Government borrowing. The expansion in the means of payment was due principally either to central bank policy (open-market operations, reductions in bank rate) or to an improvement in the balance of international payments or to both. As money became plentiful, interest rates fell. Government finance and policy played an important part in bringing down interest rates. Successful conversion operations were undertaken and banking institutions were encouraged or required to reduce their interest allowances on deposits and so encourage the movement of funds into security and commodity markets. The decline in prices stopped, business confidence was restored and *entrepreneurs* again invested their large idle balances, thus initiating the economic recovery."[1]

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[1] The adoption of a public works policy in Sweden based upon Government borrowing followed the revival of economic activity. Public works expenditures were later in time and smaller in amount than the inflow of funds from abroad as the balance of payments improved. The loans were taken up by the investing public and the commercial banks without any rise in interest rates or any necessity for the Riksbank to ease the money market by security purchases.

Japan, Chile, the United States and Germany are taken as typical of the countries " where an expansionist monetary policy has been accompanied by economic revival during the past few years, and the expansion in the amount of money available was largely due to the Government finances ".

One important characteristic which this group of countries (with the exception of Germany) shares with the former group is the achievement of freedom from pressure on the external balance of payments. Expansionist policy was not deemed possible while there was the risk of an external drain upon monetary reserves. In Chile, Japan and the United States, pressure was relieved by exchange depreciation; in Germany, and also in Italy and some other countries, domestic expansion proceeded behind the shelter of exchange control. The United States, indeed, after the provisional stabilisation of the dollar at a lower exchange level, experienced an inflow of capital on so large a scale as to add greatly to its monetary gold stock. Belgium also, after devaluation in April 1935, experienced a substantial return flight of capital which greatly facilitated the revival of economic activity. Apart from these cases, however, which were primarily due to short-term capital movements, the countries which relied upon Government expenditure rather than the revival of private economic enterprise received, on the whole, less support in their expansionist policies from an improved balance of international payments than did the countries of the first group. Even though Japanese exports increased greatly and Japan's obligations on account of external debt were relatively small, imports rose virtually as much as exports, so that there was little net gain of monetary resources. This failure to attract reserves was still more marked in Germany.

While there are great and obvious differences between the monetary experiences of these countries in recent years, they have one common characteristic in contrast with the first group. In all of them, the use made of lower interest rates and more abundant credit depended greatly upon continued Government expenditure. Whereas recovery in countries which refrained from this stimulant has taken the form of a revival of private enterprise as indicated by a quickening velocity of credit circulation, private enterprise in the second group has lagged, and credit velocity has fallen, whenever public expenditure has shown signs of decreasing.

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[1] *Cf. Money and Banking, 1935/36*, Vol. I, " Monetary Review ", and Vol. II, *passim*, for more detailed analysis of banking developments in these countries.

This development is perhaps clearest in the case of Japan, where Government spending was the main determinant of production after 1931. "As long as this expenditure continued to increase, private business-men tended to turn over their funds rapidly, thus giving secondary support to the rise in production. When, however, the Bank of Japan took funds off the market in 1934 by selling Government securities, it would seem that the anticipations of business-men regarding the future course of values became less optimistic, and they again preferred to hold more cash, thus causing a sharp fall in the velocity index. In 1935, there was a fresh rise in the rate of Government borrowing, and the commercial banks allowed their cash reserves to run down and increased their advances to industry; the fall in the velocity curve came to an end." [1]

The German experience is dominated by the fact that the economic system is in process of reorganisation. "Private credit transactions have come to play a progressively less important part in the German credit system. This development constitutes the natural counterpart of the growing dependence of all branches of the economy on State expenditures. These are financed chiefly by the Reichsbank and public credit institutions. The declining importance of the purely ' private ' credit transactions is reflected in the fact that deposits in the banks directly concerned with financing public expenditures, and, in particular, in the saving banks and various public credit institutes, have increased, while deposits with the ordinary credit banks have been reduced. Moreover, the ordinary commercial business of the credit banks has continued to fall quite sharply in spite of the revival of economic activity... It is apparent from these data that the ' secondary ' repercussions of the large public expenditures of 1933-1935 have, up to the present, been of slight importance, and that the rise in industrial production is almost entirely due to the increase in the output of industries directly benefiting from State orders. The burden of financing this increase in production was borne by the State and the public credit institutes and necessitated no special financing on the part of the industries concerned." [2]

If the developments in Japan and Germany may be broadly and somewhat categorically described as dependent mainly upon Government expenditure, the situation is more complicated in the United States. It seems clear that, in Japan, the rate of credit turnover in private enterprise has largely been conditioned by Government spending, rising when that spending increased and falling when it slackened. In Germany, private enterprise, except where directly connected with Government purchases or subsidies, has continued to contract and credit turnover has remained low. In the United States, however, there has been a very considerable capital influx and an unprecedented accumulation of monetary reserves from abroad, as well as the stimulus of large Government expenditures. The great import of gold, over $3,000 million between June 30th, 1933, and December 31st, 1935, is suspiciously close in amount to the net gain of $3,291 million in member bank reserve balances.[1] Under the stimulus of this gold flow, the commercial banks bought Government and Government-guaranteed securities in default of commercial demands for loans.[2] The greater part of the increase in public debt during this period was, in fact, absorbed by the banking system. Much of the new debt therefore is in the form of short-dated securities.[3] It is not too much to say that "the principal function of the American commercial banking system has become the financing of Government deficits." [4] The secondary effects of the building-up of Government expenditure have been limited up to the present. "The efficiency with which bank deposits were used failed to rise concomitantly with the increase in bank deposits themselves. The most striking manifestation of 'idle' balances is, of course, the huge excess reserve balances held by the member banks of the Federal Reserve System... The low level of activity of the deposits held by individuals and corporations is reflected in the indices of velocity of circulation of demand deposits calculated by the Federal Reserve Bank of New York." [5]

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[1] *Money and Banking, 1935/36*, Vol. I, page 29.

[2] *Ibid.*, page 40.

(Base: 1929 = 100.)

Quarter	1932	1933	1934	1935	1936
I	65	57	57	52	55
II	63	58	58	52	55[a]
III	61	65	54	53	...
IV	55	58	52	55	...

[a] Average April-May.

These figures reveal a striking contrast with the situation in the United Kingdom. "The essential monetary difference between the two countries lies in the differences in the rapidity of circulation of the monetary medium. In the United States, the velocity of circulation of demand deposits in the last quarter of 1935 was still only half as great as in 1929, while, in the United Kingdom, the rate of turnover of current accounts was only about 30% less than at the beginning of 1930. These differences principally reflect varying degrees of business confidence in the two countries." [1]

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[1] Monetary gold stock rose by $6,094 million, of which $2,812 million was the increment resulting from revaluation of the dollar. Gold production in the United States was approximately $175 million in this period; net gold imports were $2,609 million.

[2] Government securities rose by $5,106 million, while loans to customers fell by $889 million in this period.

[3] Of the total debt of $29,596 million at the end of 1935, $4,886 million was due to mature in 1936, $1,749 million in 1937 and another $7,562 million during the next three years.

[4] *Money and Banking, 1935/36*, Vol. I, page 33.

[5] *Ibid.*, page 35.

It should be noted, however, that the existence in the United States of large amounts of "excess reserves" that have not yet been utilised to expand the monetary circulation represent an element of safety in the banking system. They are largely due to an inflow of refugee capital, "bad money" that may be withdrawn at short notice by a return capital flight. Should such a return flight begin, repatriation could be effected without unduly disturbing monetary conditions in the United States as long as these balances have not been absorbed into the domestic credit structure. Moreover, the changed banking legislation of the United States gives ample scope for a great expansion of credit apart from the use of the present excess reserves. For example, the banks could borrow from the Federal Reserve Banks against the $10,000 million of Government securities they now hold. There is much elasticity, therefore, in the American credit situation and rather slow use is being made of the abundant and cheap credit already available.

In France, the Netherlands and Switzerland, gold reserves have fallen and note issues have been reduced, while bank deposits have contracted heavily and the velocity of their circulation has fallen to low levels. Budgetary deficits, high interest rates and large-scale hoarding have formed a difficult combination. "The precarious state of the public finances created doubts regarding the stability of the currency and led to funds being withdrawn from circulation and either transferred abroad or held in the form of notes and gold; and this withdrawal of funds from active circulation resulted in a general slowing-up of economic activity, a contraction of taxable incomes, a fresh decline in revenues, further budgetary deficits, renewed hoarding and so on in a vicious spiral." [2]

In these countries, therefore, budgetary deficits exerted a deflationary influence. Unlike the situation in the countries which created new credit for the purpose of extraordinary Government expenditure — even though such new credit was slow in being utilised by the commercial community — the financial strain in the countries of the gold *bloc* drew in resources from private investors to cover deficits in normal Government expenditure. The lack of confidence caused by the fear of currency depreciation was more restrictive than the actual fact of depreciation had proved to be in other countries. It was so, however, for the same reason as that which limited the revival of business confidence in the countries where expansion was sought by deficit financing — viz., the fear of ultimate inflation following upon budgetary deficits. It is true that many other factors, particularly the international drain caused by the depreciation of great trading currencies, such as sterling and the dollar, must be taken into consideration; but the lack of confidence caused by potentially dangerous developments in the public finances was a major cause of economic stagnation.

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[1] *Money and Banking, 1935/36*, Vol. I, page 38.
[2] *Ibid.*, page 45.

This brief and summary statement of monetary and banking developments in typical countries has not been complicated by statistical evidence of banking and other changes. The publication already referred to, *Money and Banking, 1935/36,* contains a great wealth of such statistical material for individual countries. The actual size of bank deposits, however, is less important than the use made of them, and it is to this fact that attention has been mainly directed here. Throughout the downward phase of the depression, the average velocity of circulation of bank deposits fell more than the total deposits available. When recovery began, the upward (recovery) phase of the cycle showed varying characteristics according to the monetary policy pursued in the different countries. Wherever that policy commanded the confidence of business-men, an increase in velocity came to the aid of the Government and banking measures. The conclusion is therefore suggested that "monetary policy is likely to be effective in controlling the demand for goods in terms of money only within fairly narrow limits. This demand is the product of the quantity of means of payment available and the rapidity with which they circulate. Monetary policy can control the first, but not the second, of these elements: the second is the result of individual decisions of *entrepreneurs.* While it is true that factors subject to at least some measure of monetary control — such, for example, as the rate of interest over short periods — play a part in determining these decisions, non-monetary factors are also important." [1]

This conclusion may perhaps be put in another way by pointing out that recovery measures relying upon banking expansion by methods that command the confidence and cooperation of the business community have so far proved more solid and successful than the attempt to "prime the pump" by large Government expenditures. It is, of course, possible to conceive the replacement of private enterprise in some measure by the new activities of Governments. But where the main reliance still is placed upon private enterprise, business confidence is a factor of primary importance in reviving economic activity again after a prolonged depression.

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[1] *Money and Banking, 1935/36,* Vol. I, page 54.

The Capital Markets.

Money serves, not only as the medium of exchange in current transactions, but also as a means whereby production is directed to future as well as present needs. The use of credit pervades every aspect of economic activity. Indeed, it is necessary to conceive such activity as taking place in a credit medium, the composition of which is affected, not only by economic transactions, but by other influences as well, notably banking and Government financial policies. The credit medium might perhaps be likened to the circulation of the blood in the body economic. Not all the credit is circulating among the organs: there is always some in the central reservoir and, in a growing organism, some is drawn off to aid in the processes of growth.

It has become evident that, at least in the short run, there is no automatic regulator maintaining equilibrium between the credit not consumed and the demands for new enterprises. It has been generally assumed that, in the long run, such an equilibrium is maintained by adjustments in the ruling rates of interest; but even that assumption has lately been challenged. In the short run, it is obvious that there is no necessary coincidence between the savings made by different individuals and institutions and the effective demand for new capital investments. Much of the savings or credit accumulations in recent years have been hoarded, crudely by the withdrawal of gold or banknotes from circulation or more subtly by being held in extremely liquid form, such as cash balances at banks, the turnover of which has been slowed up. The transfusion of new credit into the circulatory system, or its dilution, has not always restored equilibrium. Indeed, as was shown in the preceding section, the result of new credit creation by Government policy has in many cases failed to restore the velocity of circulation.

The limitations of credit policy are just as clear in regard to capital as to current transactions. The statistics that are available to measure new investments show much the same development in the principal money markets as the measures of turnover of current accounts. There is, of course, an obvious connection between these phenomena. When current economic activity is increasing, it is natural that the future prospects should be regarded more favourably and therefore that investment should be resumed more vigorously.

The revival of confidence which is characteristic of the recovery phase of a business cycle leads naturally to a revaluation of existing investments. There is an accumulation of hoarded or "idle" credit which begins to be used, not only in a greater volume of current trade, but in a demand for industrial shares as well. The price of fixed interest securities rises after the crisis gives place to easier monetary conditions and lower interest rates. It is not very long before both interest yields and the prospects of capital appreciation appear more attractive in the share market. Credit that had been held either as bank balances or later in gilt-edged securities is used in the purchase of shares and their market value rises. This development is clear in many countries in recent years; but account has to be taken of many complicating factors before the movements of share prices can be understood. Thus, the tendency for small investors to seek a greater measure of security through such devices as investment trusts directs their investments to certain well-known and established types of shares rather than to new enterprises. Fears of monetary inflation also may stimulate the purchase of shares, particularly of the type known as "refuge-values", even when investment in new capital enterprises is very slow. The marked increases in the share-market indices revealed in the following table cannot always be taken as indicating healthy or even optimistic conditions in the various capital markets.

Indices of Market Value of Industrial Shares.[a]

(Base: 1929 = 100.)

Country	Average			June	
	1932	1934	1935	1935	1936
Japan[b]	104	223	182	163	201
Chile	114	147	158	157	169
United Kingdom . . .	60	90	101	101	111
Denmark.	75	96	99	98	106
Norway	54	73	84	81	105
Czechoslovakia	52	60	66	62	83
Germany.	40	62	70	72	79
Austria	55	49	65	65	78
Hungary	58	48	65	65	78[c]
Switzerland	53	66	70	72	77
Canada	24	46	54	54	71
Sweden	37	46	52	54	66
U.S.A.	24	43	48	47	64
Spain[d]	65	58	63	64	58
Belgium	37	31	37	39	44
Poland.	28	29	33	33	40
Netherlands	28	31	28	28	32
France.	47	35	36	39	28

[a] League of Nations, *Monthly Bulletin of Statistics.*

[b] Base: I.1930 = 100. [c] May. [d] Base: 1930 = 100.

The flow of new capital into industrial enterprises is not easy to measure. Statistics of new capital issues are published by certain Governments, central banks or private institutions for several of the principal money markets. Use is made of some of these statistics later, but great care must be taken in their interpretation. In no case do they pretend to measure the total of new investment, and at best they can only indicate a trend of development. New investment, to begin with, is not easy to define. There is, in most undertakings, a continuous process of replacement of capital and it is not easy to separate what is simply a renewal of equipment from improvements and extensions. By no means all the capital expenditure, even of actual new undertakings — such, for example, as the erection of branch factories of an already established enterprise — necessitates recourse to the capital market. Much of it is financed from accumulated balances or reserves of the parent enterprise, or from bank advances. As the scale of business grows, a larger proportion of new capital expenditure is provided in this way. Many large businesses — a striking example is provided by the Ford Motor enterprises in the United States — do not seek new capital by share issues. On the continent of Europe, a common form of investment consists of bank advances followed later by share issues. There has also been a great deal of capital investment, for instance, in the establishment of motor-car assembly plants in various countries which has not called forth new borrowings from private individuals.

Existing statistics of new issues are, however, sufficient to throw light upon the situation in several important capital markets. Attention may first be drawn to the importance of the conversion operations carried through since 1932 on the London Market. Following the great operation by which over £2,000 million of War Loan was converted from 5% to 3½%, a considerable amount of other Government loans, municipal bonds, Dominion loans and finally industrial bonds have been converted to lower interest rates. The actual statistics are given below:

Conversions on the London Money Market.[a]

£ (000,000's).

	1932	1933	1934	1935
British Government . .	2,479	51	105	204
Other	32	172	137	108
Total	2,511	223	242	312

[a] *The Economist*, London.

There has also been an increasing amount of industrial conversion and refunding issues in the United States, particularly in 1935.

Refunding Issues in the United States.[a]

$ (000,000's).

	1933	1934	1935
Domestic:			
United States Treasury	7,355	7,830	9,009
Farm Loan issues	26	317	987
State and municipal	37	137	296
Corporations	219	312	1,864
	7,637	8,596	12,156
Foreign:			
Government	60	60	116
Corporations	2	1	—
	62	61	116
United States Possessions	—	—	8
Grand total	7,699	8,657	12,280

[a] *Commercial and Financial Chronicle*, January 11th, 1936.

The conversion of Government or other issues on the markets where high interest rates continue to rule is illustrated by the statistics available for the Netherlands and Switzerland.

Conversion Issues in the Netherlands.[a]

Florins (000,000's).

	1932	1933	1934	1935
Domestic:				
Public	251	178	1,624	116
Companies	1	—	33	16
Total	252	178	1,657	132
Foreign:				
Public	15	—	...	—
Companies	—	5	...	—
Total	15	5	2	—
Total conversions	267	183	1,659	132

[a] Rotterdamsche Bankvereeniging.

Conversion Issues in Switzerland.[a]

Swiss francs (000,000's).

	1932	1933	1934	1935
Domestic:				
Public	367	550	55	305
Private	67	37	39	24
	434	587	94	329
Foreign	203	39	224	—
	637	626	318	329

[a] Swiss National Bank.

New capital issues, except those for foreign countries, show a more distinct revival on the London market than on any other for which statistics are available. Indeed, the amounts issued in 1935 on account both of home and of Dominion enterprises are within reasonable distance of the amounts issued in 1929. Government and municipal issues do not dominate the market as in some other countries, and, with an embargo against foreign issues (except in special cases), the revival of the domestic market has been very marked. The statistics, as calculated by the Midland Bank, are presented in the following table.

Capital Issues in the United Kingdom.[a]

£ (000's).

	1929	1932	1933	1934	1935
I. *Home:*					
Governments and other public . . .	3,553	32,612	34,477	34,308	24,577
Others	155,849	51,205	60,582	72,433	137,357
Total I. . . .	159,402	83,817	95,059	106,741	161,934
II. *Dominions and Possessions:*					
Governments and other public . . .	30,618	25,698	24,977	11,035	2,908
Others	23,794	3,175	4,837	29,356	15,130
Total II . . .	54,412	28,873	29,814	40.391	18,038
III. *Foreign:*					
Governments and other public . . .	4,122	—	5,299	—	509
Others	35,813	348	2,697	3,058	2.343
Total III . .	39,935	348	7,996	3,058	2,852
Grand total I, II and III .	253,749	113,038	132,869	150,190	182,824

[a] *Midland Bank Review*, January 1936.

The extraordinary extent to which the American new issue market has been dominated by Government borrowing in recent years is revealed in the next table. There was no borrowing by the Federal Government in 1929, while in 1934 a peak of $4,759 million of new issues was reached, in addition to refunding issues amounting to $7,830 million. Meantime, the new corporate issues, which amounted in 1929 to over $8,000 million, fell in 1932 to $161 million and by 1935 had recovered only to $404 million. Foreign issues disappeared from the market almost completely.

Security Offerings in the United States of America. [a]

$ (000,000's).

	1929	1933	1934	1935
A. — United States Treasury (bills, bonds and notes):				
New capital	—	3,022	4,759	3,484
Refunding	—	7,355	7,830	9,009
Total	—	10,377	12,589	12,493
B. — Domestic, other than United States Treasury:				
I. Farm Loan issues (incl. short term):				
New capital	—	64	405	150
Refunding	—	26	317	987
Total	—	90	722	1,137
II. Municipal, States:				
New capital	1,418	483	803	919
Refunding	13	37	136	296
Total	1,431	520	939	1,215
III. Corporations:				
New capital	8,002	161	178	404
Refunding	1,374	219	312	1,864
Total	9,376	380	490	2,268
C. — Foreign:				
I. Foreign Government (incl. municipal and short term):				
New capital	120	—	—	—
Refunding	10	60	60	116
Total	130	60	60	116
II. Foreign Corporations:				
New capital	637	—	—	—
Refunding	12	2	1	—
Total	649	2	1	—
D. — United States Possessions				
New capital	5	2	—	3
Refunding	—	—	—	8
Total	5	2	—	11
Grand total (A + B + C + D):				
New capital	10,182	3,732	6,145	4,960
Refunding	1,409	7,699	8,656	12,280
Total	11,591	11,431	14,801	17,240

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[a] *Commercial and Financial Chronicle*, **January 11th, 1936.**

In Germany, new share issues, which in 1931 amounted to RM. 635 million, fell to RM. 90 million in 1933, RM. 143 million in 1934 and RM. 126 million in the first ten months of 1935.[1] The new capital issues on the Netherlands and Swiss markets are summarised in the following tables:

Netherlands. [a]

Florins (000,000's).

	1929	1932	1933	1934	1935
Domestic Issues:					
(*a*) State other than Treasury	1	163	172	201	16
(*b*) Other public	55	107	23	39	28
(*c*) Companies	270	17	13	27	6
Foreign Issues:					
(*a*) Government	19	3	—	—	—
(*b*) Companies	119	21	9	—	—
Total issues	464	311	217	267	50

[a] Rotterdamsche Vereeniging.

Switzerland. [a]

Swiss francs (000,000's).

	1929	1932	1933	1934	1935
Domestic Issues:					
(*a*) Public loans	35	211	168	314	45
(*b*) Others :					
Stocks and bonds [b] .	213	110	108	114	114
Shares	508	12	6	8	3
Total domestic	756	333	282	436	162
Foreign Issues:					
(*a*) Public	—	—	—	—	—
(*b*) Private	110	145	– 1	6	—
Total issues	866	478	281	442	162

[a] Swiss National Bank.

[b] The total given in this column conceals, in fact, a great shrinkage of commercial issues, as the following details show:

		1929	1932	1933	1934	1935
Total stocks and bonds . .		213	110	108	114	113
Of which	Banks	103	2	48	8	63
	Other financial institutions . . .	57	—	1	—	—
	Mortgages	—	78	56	87	49
	Industries	53	30	3	19	1

The great shrinkage, particularly, of share issues and the almost complete disappearance of foreign issues bear witness to the financial stringency on these markets.

The analysis of the capital markets therefore bears out in striking fashion the previous analysis of the use made by private enterprise of the abundant and cheap credit made available by Government expenditure and of the stagnation of affairs that has continued in the countries where deflationary policies are still in operation.

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[1] " Germany's Economic Situation at the Time of 1935/36 ": Report presented to the Reichs-Kredit-Gesellschaft A.G., Berlin.

A MANAGED EQUILIBRIUM.

Under the various forms of credit management that have been recently developed, the international connections of the principal money markets have been greatly modified. The sensitive flexibility of the foreign exchange quotations in response to commercial and financial demands, formerly so characteristic of the leading markets, does not now exist. Markets are narrow, and the intricate interplay of multi-angular currency transactions, arbitrage operations and commodity sales and purchases has largely disappeared. Formerly, equilibrium between the exchange rates, interest rates and commodity prices in different national markets was maintained by a great amount of constructive speculation, which smoothed out market discrepancies by a multitude of small fluctuations. This highly organised but individualistic dealing has been crippled, not only by the increasing measures of State intervention such as quantitative import restrictions, exchange controls and clearing systems, but also by the fact that the central pivot around which the mechanism functioned was dislocated when the fixed exchange parities of the gold standard gave place to wider and less predictable fluctuations. In the present narrow and controlled exchange markets, speculation is more usually destructive, being evoked by the possibilities of further exchange depreciation. Long-term capital movements have virtually ceased. Short-term capital movements, which formerly were largely in response to changes in discount and interest rates and acted as a balancing factor in the international accounts, now tend to move abruptly against the discount rates and thus accentuate disequilibria.

In these circumstances, the former self-acting mechanism of equilibrium has largely ceased to function. Commodity prices, even of important staple products, differ by multiples instead of small percentages without evoking corrective trade movements. Since short-term capital seeks security against depreciation rather than increased profit opportunities, the play of discount rates is not always effective and may even defeat its own purpose by sounding a note of alarm. National monetary and price systems have tended to pursue independent courses and to become insulated one from another. The costs involved in this breakdown of international specialisation and co-operation are evident, not only in the reduction of international trade, but also in the check to what might otherwise have been rapidly rising standards of living.

During the last year, however, there has been a much greater degree of exchange stability than in any previous year since the breakdown of the international gold standard in 1931. Within the group of countries associated with the United Kingdom, the exchange rates have remained stable in relation to sterling. Sterling in turn has maintained a stable parity with the currencies of the gold *bloc.* Despite frequent alarms, there have been no further defections from the gold *bloc* since April 1935. Several countries which had abandoned their former gold parities, notably the United States, Czechoslovakia, Belgium and Danzig, have since provisionally stabilised their currencies at a reduced gold parity. Greece, Austria, Yugoslavia and the Union of Soviet Socialist Republics have pegged their currencies, and China has also introduced a managed currency with pegged exchanges.

The main alterations in exchange rates during the year fall into three groups. The currencies of China, Manchukuo and Hong-Kong were driven off the silver standard by the rise in silver prices and managed currencies were adopted at lower exchange parities. The Iranian rial was affected in much the same way and was devalued by 20% in the summer of 1935. In Bulgaria, Roumania, Hungary, the Union of Soviet Socialist Republics, the Argentine and Peru, measures were taken to consolidate and simplify the exchange control regulations. In the U.S.S.R., a Decree dated February 29th, 1936, devalued the rouble exchange rate to the parity of 3 French francs previously adopted for all operations connected with foreigners' visits to Russia.[1] The National Bank of Roumania adopted new exchange premium regulations in June 1935 and, in December, the premiums were made uniform at 38%. As from July 1st, 1936, the depreciation of the leu was recognised by a rise of 38% in the price of gold. The extent of devaluation thus tacitly acknowledged is 27½%. New regulations in Hungary caused a fall in the pengö rate from 65% to about 60% of the old parity. In the Argentine and Peru, on the other hand, the free exchange rate rose, by 9% in the former and by 3% in the latter case. Fresh depreciation arose in Italy, where the gold value of the lira fell by 6% during the year. There was fresh depreciation also in Bolivia, Paraguay, Brazil and Colombia.

The chief fact revealed by the following diagrams, however, is the large measure of exchange stability during 1935. It is estimated that "an area covering more than 85% of world trade has for a full year enjoyed complete *de facto* exchange stability".[2]

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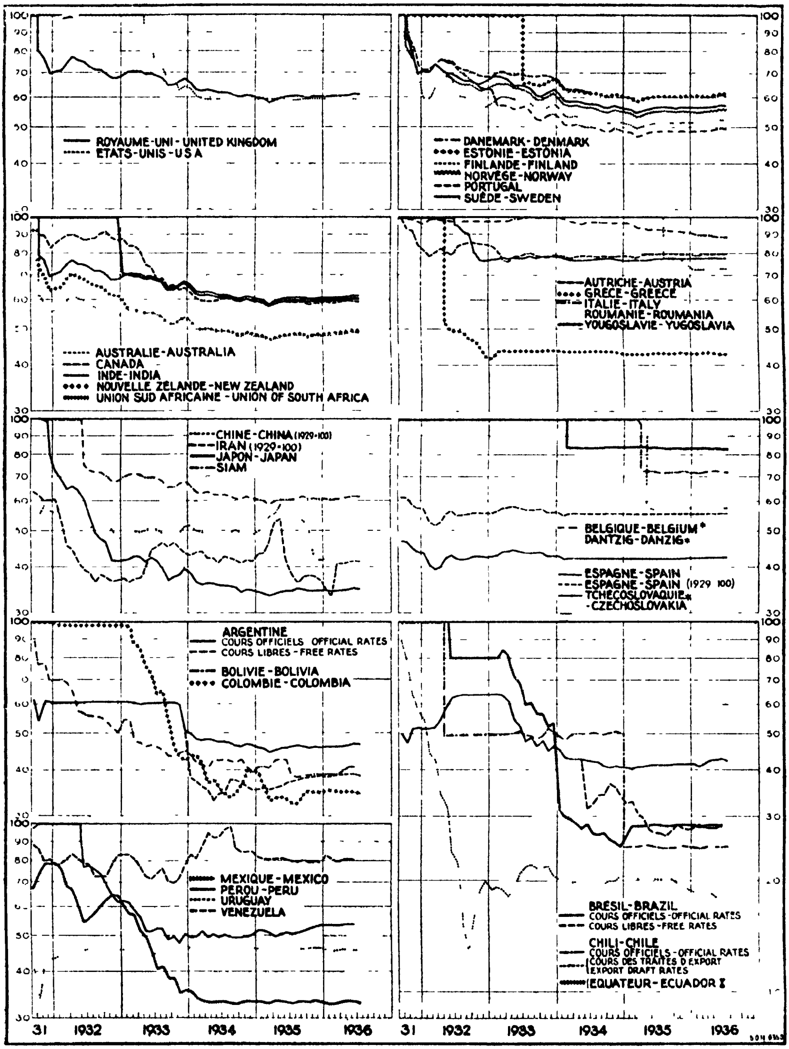
[1] The previous parity was 13.13 French francs.

[2] Sixth Annual Report of the Bank for International Settlements, page 13.

Exchange Rates.

Gold value of certain currencies as percentage of parity.

Logarithmic scale.



The equilibrium thus maintained among the principal trading currencies has been achieved by monetary management and close co-operation between national monetary authorities.[1] Except in France and the Netherlands, and to a less extent in Switzerland, very little use has been made of the discount rate as a means of checking exchange fluctuations. Indeed, the rate has remained unchanged throughout the year in most countries, while, apart from increases in Denmark (August 1935) and Italy (August and September 1935), the changes in countries outside the gold *bloc* have all been in a downward direction.[2] The mechanism of control has in many countries taken new forms. France and the Netherlands, in addition to using the discount rate, have taken measures designed to check speculation against their currencies and to make it more difficult to procure gold for private hoarding. The central banks have intervened also in the forward market. Switzerland has not raised its discount rate since May 1935, but here, too, speculative operations have been rendered more difficult. Much ingenuity, however, has been exercised in finding new means of protection against possible depreciation. Thus, in May and June 1936, a great demand for British banknotes developed in France. There has also been considerable buying of industrial shares, particularly the shares of foreign companies.

From time to time, the Equalisation Account operated by the Bank of England has intervened to control unduly rapid

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[1] *Cf.* Sixth Annual Report of the Bank for International Settlements, page 14: "The re-establishment of such a degree of order in the exchange situation has been possible only by very determined efforts and it is satisfactory to record that co-operation between the monetary authorities of the different countries has played a growing part in the execution of this policy."

[2] Changes in discount rates from August 1st, 1935, to July 31st, 1936, were:

Increases:

August 1935	— Denmark. Italy. Netherlands.
September 1935	— Italy. Netherlands.
November 1935	— France.
March 1936	— France.
May 1936	— France.

Decreases:

August 1935	— Bulgaria. France. Hungary. Netherlands.
October 1935	— Danzig. Estonia Netherlands.
November 1935	— India. Netherlands.
December 1935	— France.
January 1936	— Czechoslovakia. France. Netherlands.
February 1936	— France.
March 1936	— Netherlands. New Zealand.
April 1936	— Japan.
May 1936	— Italy. Portugal.
June 1936	— Albania.
July 1936	— France. Netherlands.

The following countries maintained their rates unchanged: Argentine, Australia, Austria, Belgium, Canada, Chile, Finland, Germany, Greece, Netherlands Indies, Latvia, Norway, Peru, Poland, Roumania, Spain, Sweden, Switzerland, Turkey, Union of South Africa, United Kingdom, United States, Yugoslavia.

fluctuations in the franc-sterling exchange rate. Thus, in May, the Account bought large amounts of francs at rates which gradually moved slightly upward. The operations of the Account are kept secret; but the technique of operation is generally known. When there is a strong demand for sterling, the Account sells Treasury bills for sterling and uses the sterling to buy francs, which are turned into earmarked gold at the Bank of France. The sale of the Treasury bills takes funds off the market and therefore prevents the inflow of short-term capital from increasing bankers' balances. Gold may also be bought or sold on the London market in order to exert an influence on the gold price. There is therefore a double influence exerted: on the credit situation in London and directly on the exchange rate and the price of gold. The Bank of England has from time to time bought gold from the Account or in the market to increase bankers' balances or to provide for an increase in note circulation.[1]

The new technique essentially consists, therefore, in a more flexible use of a secondary gold reserve designed to absorb exchange fluctuations caused by violent short-term capital movements, without the necessity for interfering with domestic credit conditions by using the discount rate. A new buffer has been created to take the shocks of short-time capital flights. Repeated statements of policy, however, disclaim any intention of using the Account to regulate longer-term forces affecting the exchange rate.

From time to time, the Exchange Stabilisation Fund created by the United States Gold Reserve Act has been used to make dollars available to meet sudden demands; but the operation of this Fund has apparently not been as continuous and important a factor in the market as the British Account. Since the dollar is provisionally stabilised and has a fixed parity with the franc, it is the sterling rate which has needed regulation.

The Exchange Equalisation Fund instituted in Belgium was wound up when the belga was definitely stabilised. A small fund has been created also in Canada, and in China an Exchange Committee has been created to hold the new exchange rate stable. Many central banks have apparently constituted secret gold reserves that can be drawn upon in sudden emergencies to meet a drain of gold without too heavy losses of visible reserves.

Pressure against the currencies of the gold *bloc* has been exerted mainly in the forward markets. The diagram which follows indicates the main periods of pressure. As these lines are written in the early days of June 1936, the forward rates have once more widened considerably; but the provisional *de facto* stabilisation of spot rates is maintained.

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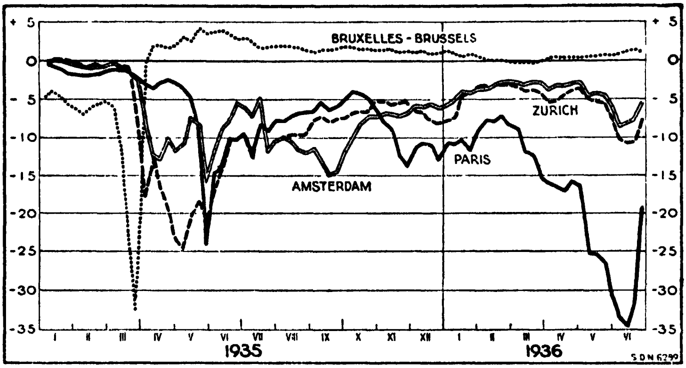
[1] *Cf.* the account of this technique given in the Sixth Annual Report of the Bank for International Settlements, page 14.

Three-months Forward Rates in London.[a]



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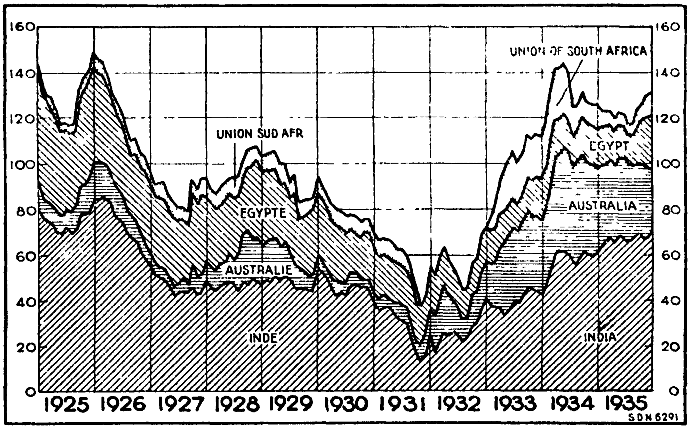
[a] Sixth Annual Report of the Bank for International Settlements, page 17.

It is not altogether easy to estimate the extent to which the managed stability of the principal exchanges reflects a nearer approach to international economic equilibrium. With the exchange rates held firm, an opportunity is provided for any disequilibria which may exist to be gradually corrected by price adjustments in the different countries concerned.

Within the group of countries whose currencies are associated with sterling, there were some, notably Australia, and to a less extent New Zealand, where the balances held in London tended to decline during 1934 and most of 1935. This tendency was reversed in the latter part of 1935 and early 1936 by rising export prices in those countries, particularly a sharp rise in the price of wool. As the next diagram shows, India and Egypt accumulated much larger balances in this period.

The diagram must, however, be read as referring only to "central" sterling resources. Commercial banks now hold less surplus sterling in London than in earlier years. The accumulations shown therefore represent in some degree a centralisation rather than an increase of holdings. On the other hand, it should be added that India has used part of its accumulating balances to repay debt, while the Union of South Africa has repaid the whole of its war debt and turned part of its sterling balances into gold. This latter transaction is in striking contrast to the policy pursued in Australia and New Zealand, which have sold their gold reserves to London.[1]

Central Sterling Resources of Certain Countries.[a]
£ (000,000's).



[a] Sixth Annual Report of the Bank for International Settlements, page 38.

The foreign exchange holdings of the Scandinavian countries, mostly sterling balances, appear to have been sustained or increased during 1935. Finland, Sweden, Norway and Denmark have decreased their foreign liabilities, added to their gold stock and yet maintained large sterling balances, because their international trading accounts have been favourable.

It is apparent, therefore, that the currencies pegged on sterling have not suffered strain during 1935, while sterling itself has been maintained stable with the dollar and the franc. The main currency strains of the year affected the gold *bloc.* After the Belgian devaluation there was a considerable return flight of capital and a reaccumulation of reserves. Successive exchange crises throughout 1935 and the first half of 1936 caused heavy gold losses in France and the Netherlands, but not in Switzerland after the first half of 1935.

Quarterly Movements of Gold Reserves, 1935/36.
Swiss francs (000,000's).

Year	Quarter	France	Netherlands	Belgium	Switzerland
1935 . .	I . . .	+ 104	− 62	− 514	− 197
	II . . .	− 2,481	− 391	+ 552	− 518
	III . . .	+ 225	− 190	− 75	+ 177
	IV . . .	− 1,114	+ 227	+ 15	+ 17
1936 . .	I . . .	− 188	+ 145	− 65	+ 120
	II . . .	− 2,351	− 252	+ 215	− 102

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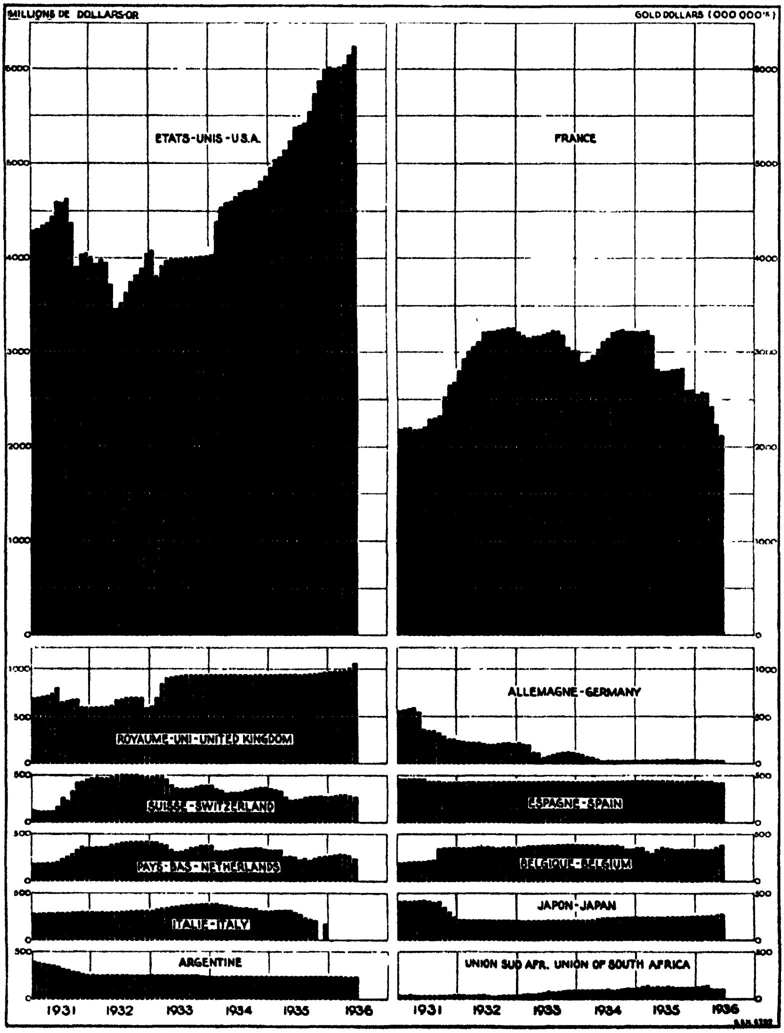
[1] " If gold and the sterling holdings of the trading banks be also taken into account, the international reserves of Australia are at present only half of the level of 1928/29. " — Sixth Annual Report of the Bank for International Settlements, page 38.

Central Monetary Gold Reserves of Certain Countries.

In terms of old U.S.A. gold dollars (000,000's). [a]



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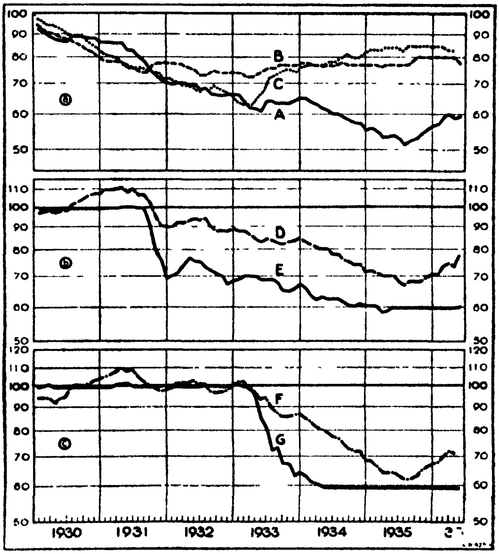
[a] Dollars of 1.50463 gramme of fine gold.

Of the other countries which maintained the nominal gold parity of their currencies, Italy lost gold heavily from the middle of 1935 onwards; Germany also lost some of its scanty reserve, a drain of gold from Poland from the middle of 1935 onwards finally made it necessary to impose exchange restrictions in April 1936. The movements of central bank reserves in other countries were not great, except for the addition to the reserves of the United Kingdom and the very large gold-flow to the United States.

In two respects there seems to have been a closer approach to international equilibrium during the first half of 1935. Short-term banking and commercial debts were further reduced, and this reduction appears to have continued throughout 1935 and also in 1936.[1] The closer approximation of price-levels which was the result of French and Dutch deflationary policy while prices were rising in the countries of depreciated currency came to a rather abrupt end about the middle of 1935. At that time, prices began to rise sharply in France and less sharply but appreciably in the Netherlands and Switzerland. The movement of prices and exchange rates in France, the United Kingdom and the United States is clearly shown in the following diagram:

Relative Wholesale-price Movements and Exchange Rates.

(Base: 1929 = 100.)



A Wholesale-price indices in France.
B Wholesale prices in the United Kingdom.
C Wholesale prices in the United States.

D Wholesale prices in France as % of United Kingdom.
E Value of £ in terms of francs.

F Wholesale prices in France as % of United States.
G Value of $ in terms of francs.

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[1] *Cf.* Sixth Annual Report of the Bank for International Settlements, pages 37-44.

The explanation of this rather sudden and very definite reversal of what appeared to be a fairly close approximation towards international price equilibrium is clearest in the case of France. By a great and sustained effort of deflation, wholesale prices were reduced in that country; but, before the reduction could be maintained long enough to assure equilibrium, the effort had to be given up for both economic and social reasons. On the economic side, it proved difficult to reduce certain costs. The cost of living was sticky, wages were not easy to reduce; but, above all, interest rates remained high and could not be reduced largely because of a precarious budgetary situation. Production costs could not be brought down sufficiently to meet the new price-levels necessary to compete with foreign competition. Moreover, the strengthening of import restrictions caused certain prices of imported commodities, including some foods, to rise. Beyond these economic factors lay the political and social obstacles to continued deflation.[1]

That disequilibrium exists is sufficiently evident from the continued large flow of gold across the Atlantic to the United States. During 1935, the total increase of gold reserves in that country was $1,887 million, which is "equal to the whole supply of new gold from current production and the East plus nearly half of the aggregate net gold losses of the Bank of France, the Nederlandsche Bank and the Swiss National Bank".[2] During the first six months of 1936, a further $483 million was added to this large sum. The dominant reason for the large gold imports into the United States is a large-scale movement of capital: the repatriation of American funds, the increase of European balances in American banks and the transfer of large amounts for investment in the New York stock market. As the preceding diagram shows, the levels of wholesale prices and exchange rates as between the United Kingdom and the United States had returned by the beginning of 1936 to the relationship existing before the former abandoned the gold standard in September 1931.

As shown elsewhere in this *Survey*, the commodity balance of trade was less active in the United States during 1935. The disequilibria which were reflected in such large capital and gold

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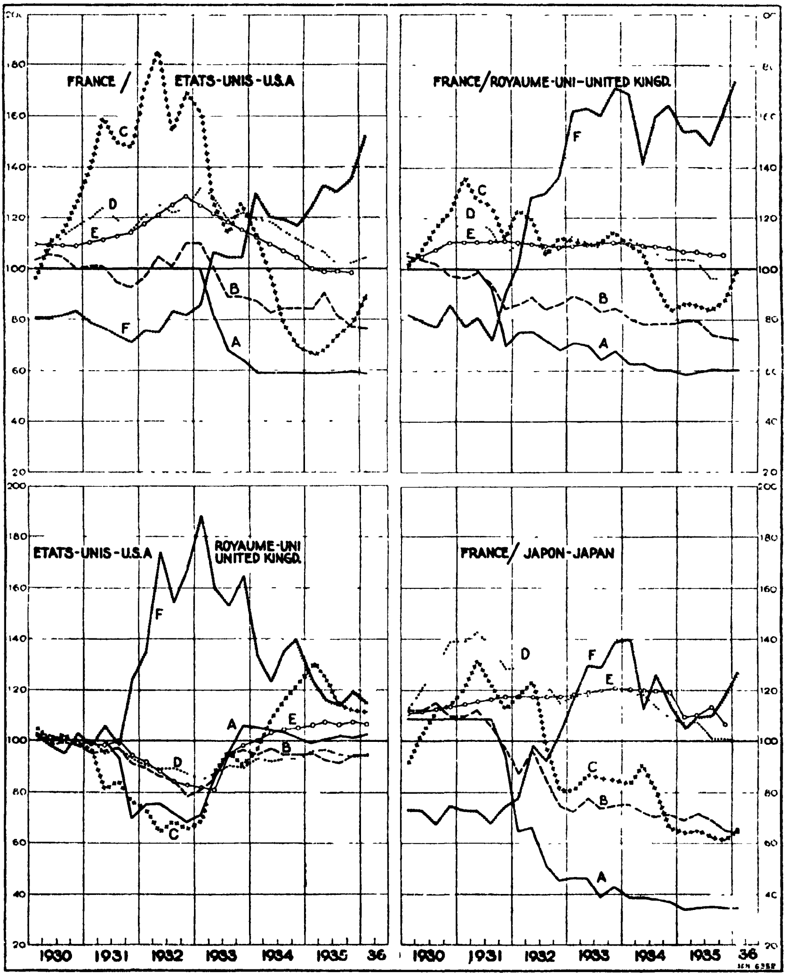
[1] The movement of exchange rates, interest rates, wages and various prices is compared for several countries in the series of diagrams on pages 277 and 278. The method used is to calculate the ratio of the index numbers and plot these ratios on the basis of September 1931 = 100. To facilitate comparison, the exchange rates are reversed. Thus, in the comparison between France and the United States, the French index numbers of wages, prices and interest rates are divided by the American. The quotient for September 1931 is equated to 100 and the monthly movement of each ratio since that time is plotted as an index number on the base of September 1931. The diagrams show that interest rates have risen in France and that wages and prices have not fallen enough to compensate for the exchange disadvantage.

[2] Sixth Annual Report of the Bank for International Settlements, page 32.

Exchange Rates (Reversed) and Price Ratios, 1930-1936.

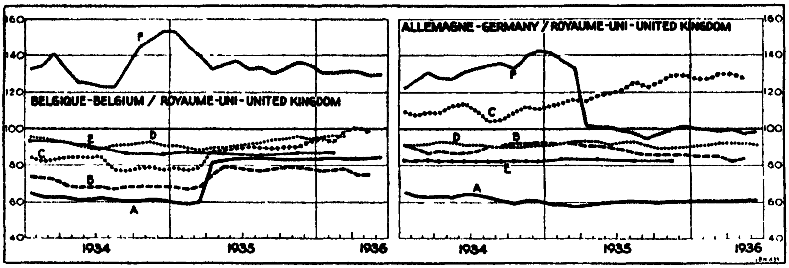
(Base: 1929 = 100.)

A	Exchange rates.	D	Cost of living.
B	Wholesale prices of raw materials.	E	Wage rates.
C	Wholesale prices of foodstuffs.	F	Bond yields.



Exchange Rates (Reversed) and Price Ratios,
January 1934 - June 1936.
(Base: 1929 = 100.)

A Exchange rates.
B Wholesale prices of raw materials.
C Wholesale prices of foodstuffs.
D Cost of living.
E Wage rates.
F Bond yields.



movements to the United States are therefore to be explained largely by a continued flight of capital in apprehension of further currency depreciation.

Chapter X.

THE SITUATION IN JULY 1936.

MONETARY EXPANSION CONTINUES.

The first chapter of this *Survey* was written in March 1936. As this final chapter is being written in the latter part of July, there is no lack of political and economic events to record. On the political side, with which this volume is not concerned except in so far as it influences economic trends, the major events that have followed one another in rapid succession since March may be recalled briefly. At the beginning of April, Austria introduced compulsory federal service. In the first week of May, Italian troops occupied the capital of Ethiopia. Elections took place in Belgium and France in May and on June 4th a French Cabinet took office with a new programme of social and financial legislation. On June 20th, the United States of America raised its arms embargo against Italy and Ethiopia. A commercial agreement was signed between Italy and Germany on June 21st. The financial and economic measures against Italy were revoked by States Members of the League as from July 15th. Also in July, the Conference called to consider the Turkish request for fortification of the Dardanelles met at Montreux and a Convention conceding the Turkish request was signed; it was announced that a political understanding had been reached between Austria and Germany; and armed revolt broke out in Spain.

The economic influence of all these events, direct and indirect, is difficult to determine, but is likely to be important. A direct connection may be traced, for example, between the stay-in strikes in France and Belgium in early June and the changed social and financial orientation of government in those countries. The flight of capital from the gold-standard countries in May and June and its decline in July were governed largely by political anticipations. The redistribution of trade in Europe is connected in some degree with changing political alignments. The stimulus given by accelerated programmes of rearmament to production and employment, particularly in the heavy industries, is likely to be more marked in the future.

As far as the recent past is concerned, it seems clear that the widespread recovery in various economic fields owes less than is often supposed to such rearmament as has already taken place; the greatest measure of recovery is evident in countries where rearmament has not up till now played a great rôle. The nature of that recovery is consistent with normal cyclical expansion after a period of depression. It is manifested in increased production, particularly of durable consumption and investment goods — residential buildings, motor-cars, mechanical equipment and construction materials. Price disequilibria tend to disappear as a result of more balanced demands. Over a large area, international trade is at last tending to increase. Some of the most recent statistical indications of these facts are summarised in the pages which follow. At the same time, attention must be drawn to the uneven rate of recovery and the international disequilibria that remain and have even been aggravated in recent months. In some of the most powerful trading countries, particularly the United States, the recovery seems only now to be gathering way; and the immediate outlook is for increased activity. In others, economic and financial reserves have been drawn upon rather heavily and further recovery seems to await a fresh external impetus. In others, again, the advantages drawn from more favourable external economic relations seem to have been largely exhausted. Meantime, political, financial and economic uncertainties continue to provoke violent capital movements that obscure the relationships between the principal trading nations. All these inequalities, however, are fluctuations around a rising trend. The basic movements of production, prices and trade are upward and international economic strains are dangerous only in so far as they may become great enough to check this upward trend.

Preceding chapters have dealt with various aspects of this uneven recovery. The series of diagrams which follows shows the official and unofficial discount rates and the yields on Government and industrial bonds in several important industrial countries. The falling tendency and low levels of interest rates in most of these countries indicate an abundance and cheapness of credit; but it will be clear from the diagrams that interest rates affecting industry are lower, for example, in the United Kingdom and the United States than in Germany, and steadier than in the countries of the gold *bloc* or Italy.[1]

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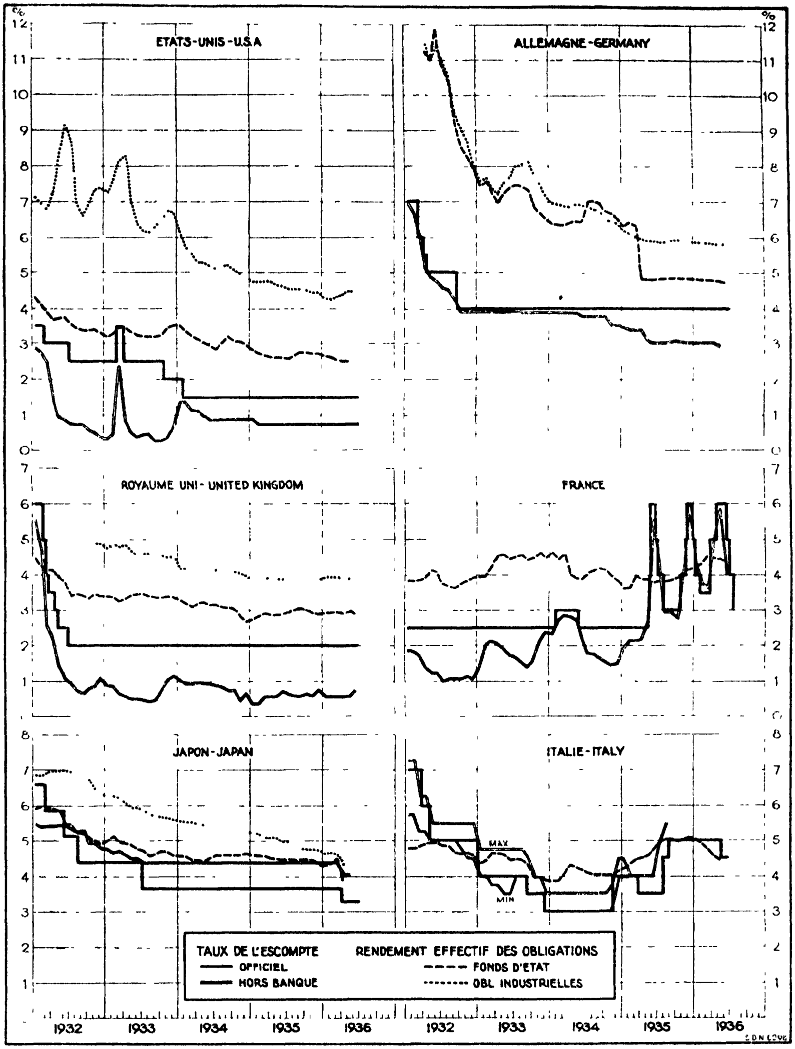
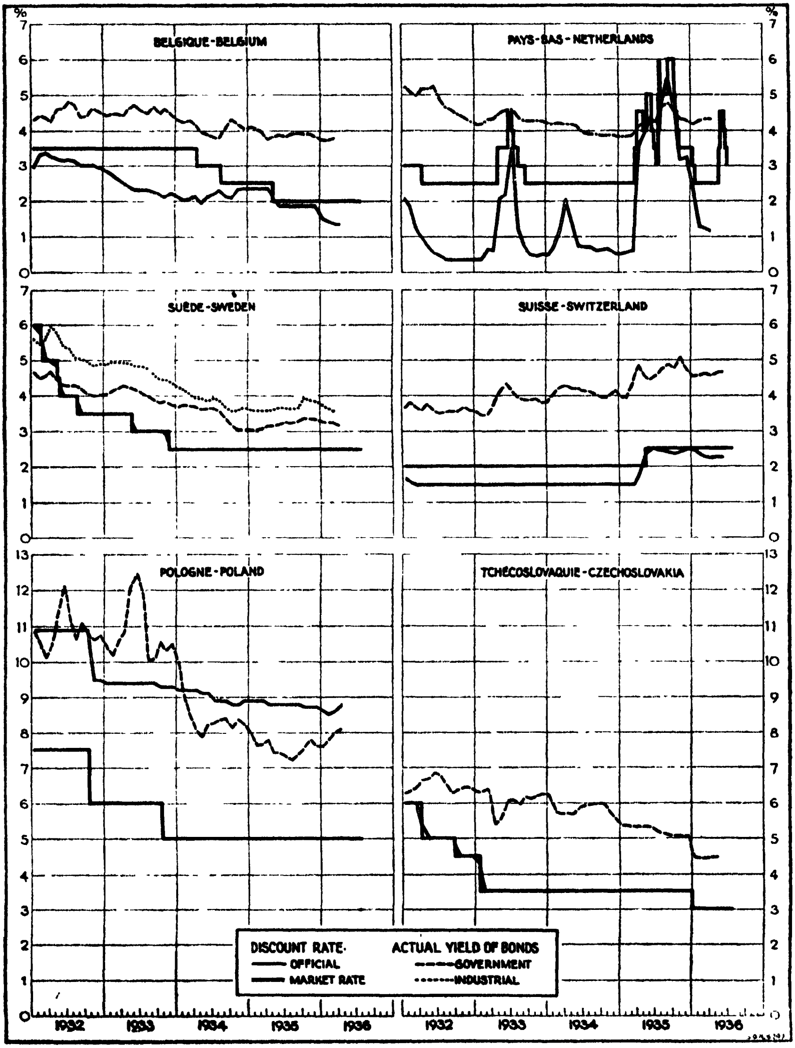
[1] For a more detailed analysis of the price of industrial capital in a greater number of countries, see *World Production and Prices, 1935/36*, Geneva, 1936.

Discount Rates and Other Interest Rates.



Discount Rates and Other Interest Rates.



Banking developments in the first halt of 1936, particularly in the United Kingdom, seem to indicate the probability of cheap credit continuing in the near future. The two countries of primary importance in this respect at the present time are the United Kingdom and the United States. Both added greatly to their monetary gold reserves in the first half of 1936 — the United States by $483 million,[1] and the United Kingdom by £16.6 million (at the former gold parity). In both, purchases continued during July, the Bank of England buying gold to the value of £22.6 million in that month alone. While it is clear that most of these acquisitions have been the result of a flight of capital from the prospect of currency depreciation in the gold-standard countries, in both countries they have added substantially to the monetary gold stock. In the United States, the Federal Reserve Board on July 15th raised the reserve requirements of member banks by 50% as a precautionary measure against the future possibilities of too great monetary expansion. It is anticipated that this measure will reduce excess reserves to about $1,900 million, at which figure they will be more amenable to the control that may in the future be exerted by the Federal Reserve Board selling Government securities. Even so, this amount is large enough — especially when considered with the more elastic provisions of the Banking Act 1935 — to provide the basis for a large expansion of commercial advances beyond present figures. The necessities of Government financing and re-financing in the near future and the desirability of giving scope for further industrial recovery make the continuance of the low interest rates now ruling an essential element of banking policy. It is possible, indeed, to regard the action taken by the Federal Reserve Board as a species of earmarking of a part of the redundant gold reserve against the possibility that return capital movements may cause gold exports. In this respect, it is rather a precaution against the refugee capital's being drawn into a vast domestic credit expansion (as in 1922-1929) than a measure to limit such expansion on the basis of the abundant reserves still available.

In the United Kingdom, the Exchange Equalisation Account is designed to take the shocks of such vagabond capital movements. The extent to which it has acquired gold by selling sterling in recent months is not disclosed, but is believed to be considerable. The transference of part of that gold to the Bank of England represents an addition to domestic banking reserves. A large amount of sterling banknotes has passed into the hands of foreign holders. There was a considerable flight from the gold-standard currencies in May and June, and sterling was purchased either in the form of bank deposits or notes. In order to provide itself with the necessary resources in sterling, the Exchange Equalisation Account sold Treasury bills to the market. As always in the second quarter of the year, when revenue returns are unequal to expenditure, and particularly at the close of the half-year, ordinary Government borrowing from the market was heavy. With the development of the rearmament programme, borrowing was indeed increased more than seasonally. In these circumstances, a rise in the short-term interest rate would not have been surprising. There was in fact a slight rise for two weeks in June, but the rate quickly returned to its previous low level of about ½% and the half-year closed easily. This ease was made possible largely by the action of the commercial banks in meeting the demands of the Government and of industry, while at the same time their cash ratios were falling. In May 1936, the percentage fell to 10.1, as compared with 11.2 a year earlier. This action is a clear indication of the continuation of an expansionist policy.

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[1] Monetary gold stocks: end of December 1935, $10.125 million; end of June 1936, $10.608 million.

The acquisition of gold in substantial amounts by the Bank of England, presumably from the Exchange Equalisation Account, builds up the monetary reserve upon which domestic credit can be further expanded, as distinct from the earmarked reserve held by the Account against future return movements of capital. It therefore represents an expansion of central bank credit and makes probable, without any need for higher interest rates, the continuance of cheap and abundant credit to meet the increasing demands of the Government and industry. The fact that the Bank's reserve may at some future time be re-valued at a higher amount in sterling parity enhances its significance as a basis of credit expansion. The supply of credit is therefore greater and more elastic than before. The industrial demand for credit, however, is still below pre-depression levels since there has been a considerable measure of financial rationalisation, economising the need for credit in many directions, while the level of prices remains relatively low and is not rising very rapidly.

Cheap-money policies continue to be followed also in a number of other countries. Throughout the so-called sterling area, domestic interest rates are low and in many countries are still falling. Rates are falling, for example, in Sweden and Canada. Moreover, the higher raw-material prices ruling from the last quarter of 1935 have built up the sterling reserves of such countries as Australia and New Zealand. The rise in

Australian interest rates noted in the first chapter of this volume has proved, as was expected, an isolated incident due to local reactions to the Commonwealth Bank's attempt to sell Treasury Bills to the market, rather than to any change of monetary policy. In New Zealand, the new Government is pursuing an active policy of monetary expansion, utilising the nationalised Reserve Bank as its chief instrument.

An interesting example of the general trend is Japan, where, in April 1936, after nearly four and a-half years of monetary expansion, the official discount rate was further lowered and was followed by market rates of short-term interest. The Bank of Japan temporarily discontinued its sales of Government securities and two conversion issues were announced. These measures are preparatory to the placing of fresh Government issues to finance the new expenditure called for by increased armament programmes. In Belgium also, there was a decided fall of short-term rates in 1936, and the official rate was lowered in Czechoslovakia (January), in Italy and in Portugal (May). The continuance of cheap money in Germany is evident from the preceding diagram, and the launching in June 1936 of a new Government loan of RM. 700 million indicates that expenditure necessitating recourse to borrowing, which must from time to time be consolidated, is continuing. Only in the countries of the gold *bloc* in this period have interest rates been high and on the whole rising; but Poland has established exchange control, introduced fresh import restrictions and declared a moratorium on external debt payments; while France has taken a series of measures designed to lower interest rates. As currencies are adjusted one after another to the depreciated levels of sterling and the dollar, whether by direct devaluation or by other devices such as export premiums, the area within which gold reserves are or may be written up and interest rates decline constantly extends. While similar exchange adjustments in the case of the remaining gold-standard countries might cause violent return movements of capital, the stimulus to cheap-money policies would in this event be considerable. It was suggested in the first chapter of this volume that, in the countries of depreciated currencies, the first phase of recovery, consisting largely of credit expansion without rising production costs, was merging into a second phase in which the advantages of exchange depreciation ceased to be important, since the main trading currencies were settling down to a new equilibrium. Subsequent developments in the second quarter of the year bear out this analysis. Credit expansion continues and is led by the countries, such as the United Kingdom and Japan, which led the way in exchange depreciation in 1931;

but costs, such as taxes and wages, begin to respond and prices are lifting more rapidly.[1]

RAW MATERIALS AND INTERNATIONAL TRADE.

Whatever may have been the case in previous cycles, recovery from the latest depression appears to have spread from the industrial centres outwards. By a settling down of exchange relationships and later by fresh Government expenditures and monetary policies designed largely to facilitate such expenditures, there has been a new impetus in recent months. This new impetus has quickly spread outward, the vehicle of communication being an increased demand for and higher prices of raw materials and, later, of certain foodstuffs. The stimulating effects of these higher prices may be traced practically throughout the agricultural and mineral-exporting areas. The last quarter of 1935 and the first half of 1936 were a period of rapidly increasing prosperity for most of these countries.

In retrospect, economic developments since the breakdown of the international monetary and trading system in the latter part of 1931 may be regarded as an attempt to construct a new system of international economic relations. In the old system, fixed charges, mainly debt obligations, weighed heavily upon national economies and international economic relations. Much of this burden of debt has been shaken off as by a convulsive movement. If, as seems probable, price-levels slowly rise as a consequence of increased monetary reserves and more elastic credit, much more of the real, as distinct from the nominal, burden of these charges will disappear. Perhaps the most important development in this respect will prove to have been the enhanced gold production called forth by lower production costs and higher prices for the gold produced.

The turning-point came when the United Kingdom was freed from external pressure on its balance of payments and was thereby enabled to check deflationary contraction within its own economy. A great number of countries, particularly those whose financial and commercial relations with the United Kingdom were most intimate, followed immediately and attached their currencies to the new sterling level. After a year and a-half, the United States also abandoned the old level. The years of adjustment, while currencies were depreciating unevenly and trade barriers were being hastily erected to preserve other national price-systems from the new drastic competition made possible by exchange depreciation elsewhere, were years of disorganisation in which heavy blows were struck at the very idea of international economic co-operation. Gradually, as a large part of the trading world settled down to a more stable exchange relationship at the new levels, increasing economic activity in the great industrial countries and a distinct revival of trade within the area of exchange stability started an upward spiral of recovery. There remained, and still remain, important areas where adjustment to the new exchange levels has not yet been made. In those areas, external strain caused either a continuing contraction by deflation or progressive isolation, as expansion took place behind the shelter of exchange restrictions.

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[1] Between June 1935 and June 1936, the Board of Trade index number of wholesale prices in the United Kingdom rose by 4.7% in one year, whereas the rise from June 1932 to June 1935 had been less than 8% in three years.

The entrenchment of many national economies, particularly in Europe, behind the shelter of new and more effective trade restrictions than have ever before been known in times of peace, remains therefore as a legacy from the dislocation as the old international system broke up and a new one commenced to form at the lower level. Such restrictions, narrowing the area of international trade and specialisation, and breaking essential links in the chain of transactions by which trade was formerly conducted, present a formidable obstacle to the return of worldwide prosperity.

A second great obstacle is presented by the derangement of capital movements. Not only has much past investment been written off and new long-term lending been brought to a standstill, but the mechanism by which debt obligations were discharged through commodity trade has been impaired also. The most serious immediate aspect of this situation is the shortage of real capital and wastage of reserves in many countries whose international credit has meantime been reduced as a result of default and transfer difficulties. Moreover, the problems of international equilibrium have not been eliminated by shifting to lower currency levels. As exchange stability returns, uneven progress in national economies presents much the same problems as under the gold standard. Large movements of vagabond capital and uneven accumulations of monetary reserves attest the reality of these problems at the present time. There can be no international system without the continuous adjustment to it of national economic developments.

The increased economic activity of such great industrial areas as the United States and the United Kingdom and the impetus which such activity imparts to the raw-material-producing and small manufacturing countries must therefore be considered against a rather troubled international background. There can be no doubt of the reality of the impetus given. Nor is there any doubt of the stimulus afforded within a limited area of Central Europe and South America by the diversion of German purchases from such countries as the United States and the British Dominions to countries from which Germany can buy on a barter basis. The Union of Soviet Socialist Republics, where industrial progress has been relatively even more rapid, is less important in this respect, since its development is so largely self-contained, but Japan's rapid industrial progress has depended largely upon imported raw materials.

It has already been shown that, in 1935, purchases of raw materials by the United States, virtually world wide and affecting Southern Europe as well as the tropical islands and Asia, were perhaps the greatest single cause of increased trade and higher raw-material prices. Recovery continued in the United States throughout the early summer.

The Supreme Court has continued to issue a series of rulings, most of which have been unfavourable to the experimental legislation passed from 1933 onwards. In April, a judgment delivered on certain aspects of the work of the Securities and Exchange Commission contained a strong criticism of administrative law, condemning in vigorous terms the interference by executive organs with the " fundamental rights, privileges and immunities of the people ". The Guffey Act, which set up a substitute for the National Recovery Act in the coal industry, was declared unconstitutional in May, as was also the Municipal Bankruptcy Act 1934. On June 1st, an even more striking decision invalidated the New York State Minimum Wage Law for Women and Children. There was also a series of decisions in the lower courts unfavourable to Government measures. While these decisions were being taken, Congress adjourned, having passed the Soil Conservation and Domestic Allotment Act, which largely replaces the Agricultural Adjustment Act, the Veterans' Bonus Act, the Commodity Exchange Regulatory Act, a Revenue Act imposing graduated taxes upon corporation profits and a new tax upon undistributed corporate income and various other Government measures — but leaving many controversial measures still to be dealt with. A Deficiency Act appropriated $2,369 million for Social Security Administration, the Tennessee Valley Authority and other Government authorities, including $1,425 million for relief payments.

From the point of view of economic recovery, however, interest has largely passed from political measures to the more definitely economic indications of increasing private and corporate activity. A major cyclical upswing is in progress, facilitated by cheap and abundant credit. Production is increasing with as yet little sign of the normal summer recession. Capital issues, while still mainly concerned with refunding, continue to expand, the total for the first quarter of 1936 being $1,071 million compared with $178 million in the first quarter of 1935. The shift from Government to private expenditure is clearly illustrated in the statistics of building contracts awarded.[1]

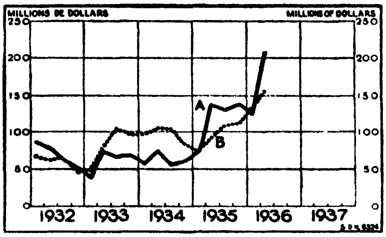
Building Contracts awarded in U.S.A., 1932-1936.

	Total contract awards $ (000,000's)	Percentage publicly financed	Percentage privately financed
1932	1,351	57	43
1933	1,256	54	46
1934	1,543	63	37
1935	1,845	55	45
1936:			
1st quarter. . .	546	58	43
2nd quarter . .	651	46	54

It is significant that residential is increasing faster than industrial building, as rising rents catch up to the level of building costs.

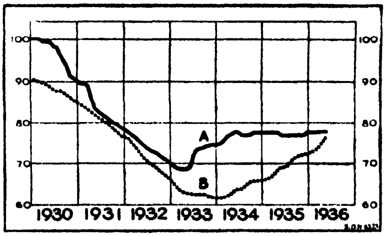
Building Contract Awards in U.S.A[a].

A Residential. B Industrial.



Building Costs and Rents in U.S.A[a].

A Building costs. B Rents. (1926 = 100.)



[a] National City Bank of New York, *Monthly Letter*, July 1936, pages 100-101.

The rise in industrial production disclosed by the following table is paralleled by an increased demand for services, including amusement services. There has been a decided shift in recent years from expenditure on producers' goods to expenditure on consumers' goods, so that the usual indices of production probably under-estimate the recovery that has already taken place. One of the characteristic features of the last few months is a revival of consumer credit by a rapid extension of instalment purchases. This is of particular importance for the sale of durable consumption goods such as automobiles. The public credit has also been drawn upon, the latest example being provided by the payment of the " Veterans' Bonuses ".

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[1] National City Bank of New York, *Monthly Letter*, July 1936, page 99.

Business Indices in the United States.[a]

(Base: 1923-1925 = 100.)

Adjusted for seasonal variation.

	1935						1936					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
Industrial production . .	91	89	88	86	85	86	98	94	93	100	101	103[b]
Construction contracts. . .	27	28	26	27	27	30	61	52	47	47	46	49[b]
Residential. .	12	14	16	18	21	24	25	25	26	30	32	36[b]
Other	39	39	35	33	32	36	90	73	63	60	57	59[b]
Factory employment .	81	82	83	82	81	80	85	84	84	85	86	86
Factory payrolls (unadjusted) .	64	69	71	71	69	66	73	73	76	78	79	80
Freight car loadings . . .	64	65	65	61	61	63	70	70	66	69	70	70
Department store sales	74	75	82	75	74	79	79	80	88	84	87	88

[a] *Federal Reserve Bulletin*, August 1936.
[b] Preliminary.

In 1935, industrial recovery in the United States had been concentrated mainly in the consumers' goods industries; but, while production in these industries continued to increase in the first half of 1936, the producers' goods industries were rapidly taking the lead. Not only building activity, but also iron-and-steel production increased markedly,[1] railway freight traffic also increased and electricity consumption reached new records, while the index of production in the engineering industries in May 1936 was 76.3 compared with 47.0 in May 1935. These developments naturally stimulated both imports and exports, the former increasing by 16% and the latter by 14% in the first five months of 1936 as compared with the corresponding months of 1935. The outlook for the rest of the year depends a good deal upon the results of the hot dry summer.[2] Drought conditions reduce crop yields in the areas affected, but raise prices. It is at present too early to judge whether the net result will be to reduce or increase total farm income for the country as a whole. Increased imports — for example, of wheat from Canada — are likely and, unless reduced farm income should cause a setback to the sales of manufactured goods, the increase of raw-material imports should continue.

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[1] In May 1936, the production of pig-iron was 2,691 and that of steel 4,111 million tons compared with 1,755 and 2,676 million tons respectively in the corresponding month of 1935.

[2] Exports from the United States are heaviest in the second half of the year.

The trade returns of the United Kingdom for the first half of 1936 also disclose a heavy increase in the imports of raw materials and foodstuffs, and also of manufactured goods. The figures were as follows:

Imports into the United Kingdom.

£ (000,000's).

	First half, 1935	First half, 1936	Increase in 1936 %
Food, drink and tobacco . .	160.0	173.8	+ 8.6
Raw materials	86.6	102.0	+ 17.8
Manufactures	82.4	92.3	+ 12.0
Total[a]	330.7	370.4	+ 12.0

[a] Includes two further items: animals not for food and parcel post.

It is not surprising, in these conditions, to find substantial increases in the prices of many important foodstuffs and raw materials. The latest quotations available are summarised in the following table:

Wholesale Prices of Certain Foodstuffs and Raw Materials.[a]

Commodity	Quotation	June 1935	June 1936	Mid-July 1936
Wheat . . .	Winnipeg, cents per bushel .	81.75	81.63	91.00
Rice	Chicago, cents per bushel . .	81.50	66.25	85.00
Sugar. . . .	London, raw sugar, sh. per cwt.	4 /9	4 /6$^{5}/_{8}$	4 /5$^{3}/_{4}$
Sugar. . . .	New York, centrifugal, cents per lb.	2.31	2.80½	2.83
Coffee . . .	New York, Rio No. 7, cents per lb.	6.88	6.75	7.00
Tea	London, Ceylon, Pek. Ord., pence per lb.	10.50	11.50	11.50
Cocoa. . . .	London, Acra F. F., sh. per cwt.	19 /9	28 /6	28 /3
Butter . . .	Copenhagen, Kr. per 100 kg. .	168.00	200.00	218.00
Lard	Chicago, cents per lb. . . .	13.50	10.48	10.78
Tallow . . .	New York, cents per lb. . . .	6.75	5.75	5.88
Copper . . .	London, £ per ton	28.94	36.63	36.94
Tin	London, £ per ton	229.95	176.50	187.25
Zinc	London, £ per ton	14.00	13.75	13.19
Lead	London, £ per ton	13.78	15.06	15.56
Wool	Antwerp, pence per lb.. . .	26.50	25.75	27.12
Cotton . . .	New York, cents per lb. . .	12.15	12.43	13.50
Jute	London, £ per ton	19/12/6	17/6/3	16/12/8
Hemp . . .	London, Manila Y, £ per ton .	15.50	28.00	27.88
Rubber . . .	London, pence per lb.	6.03	7.56	7.75
Crude oil . .	New York, Penn., $ per barrel	1.695	2.075	2.075
Petroleum. .	New York, Stand. White in cases, cents per gall. . . .	16.25	16.25	16.25
Linseed oil .	London, £ per ton	21.75	26.88	28.00
Soya bean oil	London, Singapore, £ per ton .	17.00	24.00	25.50
Copra. . . .	London, Singapore, £ per ton .	10.88	14.06	13.94
Hides. . . .	La Plata, pence per lb. . . .	5.38	5.37	5.13

[a] *Neue Zürcher Zeitung*, July 17th, 1936.

The sharp rise in wheat prices in mid-July was caused mainly by drought reports, and prices eased somewhat later. The upward tendency in the prices of most of these commodities is very marked, and further evidence of improved demand is available in the relaxation of production restrictions in the case of controlled commodities such as rubber, tin and copper. The most recent figures showing the notable decline in world stocks of raw materials and foodstuffs have already been given in Chapter II of this *Survey*.

While there are cross-currents to be noted, such as the abstention of Japanese wool buyers at the clearing-up sales in Australia — to which the fall of about 10% in wool prices is mainly attributed — and certain dissensions concerning the conduct of international restriction schemes, there can be no doubt that the demand for raw materials has increased as a result of the new impetus given by accelerating recovery and new armament programmes in the great industrial countries. As noted above, German imports are fairly well maintained and are greater from the countries with which Germany has clearing balances. New Government measures to provide cheap credit in Japan have stimulated a fresh increase in imports to that country, total imports in the first half of 1936 being 9% greater than in the first half of 1935. On the other hand, the development of Japan's export trade has not been as great as the increase in imports, the total increase in the first half of the year being less than 5%. The exports of cotton piece goods fell considerably in quantum, while there was also a decline in exports of silk tissues, pottery, paper and some chemical goods. The greater part of the increased imports therefore consists of raw materials for domestic manufactures, including the armament industries. The cost of living has risen faster in recent months than before and the restrictions on external trade have increased.

THE GOLD-BLOC CRISIS.

In the second quarter of 1936, the countries of the gold *bloc* passed through the severest currency crisis they have yet experienced in the course of the depression. As in the crisis of the preceding year, one result was the departure from the gold standard of one member of the *bloc*. In April 1935, Belgium devalued her currency. In April 1936, Poland imposed exchange control. The three remaining countries of the *bloc* — France, the Netherlands and Switzerland — survived the crisis without devaluation, though at the cost of heavy gold withdrawals and some increase in exchange restrictions. In the summer of 1936, the drain of gold ceased and there was some return flow to the reserves, while financial tension appeared to have eased. Discount rates were lowered again in France and the Netherlands.[1] A bold "New Deal" was launched in France and, for the time being at least, the movement of affairs appeared to be upward.

The problem presented to these countries by the almost universal currency depreciation elsewhere (or monetary expedients amounting to virtual depreciation) has been the subject of public discussion for some years and the issues are now reasonably clear. After the abandonment of the gold standard by the United Kingdom, and still more after the United States had devalued the dollar by approximately the same amount as that by which sterling had depreciated, there was a strong tendency for new exchange equilibria to be established around these focal points. A great many currencies had followed sterling, and when the dollar-sterling ratio appeared to be reasonably steady at approximately the old parity, other currencies settled down at about the new level or in a steady relationship with it. After sterling ceased to depreciate in April 1935, there was, indeed, exchange stability among all the principal countries, modified only by a tendency for some of the exchange-control countries to introduce premium systems which had the effect of bringing their currencies, for purposes of external trade, down approximately to the new level. When China abandoned the silver standard and introduced a managed currency, it was kept stable in relation to the sterling-dollar exchange, without, however, being definitely pegged to either of these currencies.

This *de facto* stabilisation of the principal currencies gave an opportunity for uneven price movements to remedy the discrepancy which existed between the price-levels of the gold-standard group and those of the United Kingdom and the United States. Wholesale prices had not risen greatly in the latter countries. There had been a steady fall in the former, but not enough to compensate for the exchange depreciation of other currencies. The gold-*bloc* countries therefore had been driven to increasingly severe control of imports, in order to maintain their domestic price-levels. The strain imposed by a constantly adverse balance of external payments was aggravated by distrust of the gold-standard currencies, leading to a steady flight of capital which at times rose to great proportions and was swelled by speculation against these currencies. There was a persistent deflationary pressure in the gold-*bloc* countries, a considerable amount of hoarding, both of gold and of banknotes, and a reduced velocity of circulation of bank deposits. Economic activity was thus reduced to a low ebb, profits disappeared, unemployment increased and the state of public finance was rendered difficult by shrunken revenues and by expenditure which could not easily be reduced but was indeed increased in certain directions. The resulting deficits were not easily covered by borrowing, since much capital was hoarded and interest rates were high. The budgetary situation in all these countries therefore remained difficult.

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[1] Switzerland had not increased its discount rate.

In the preceding *Survey*, a preliminary account was given of the series of decree-laws by which the French Government in July 1935 introduced a further programme of budgetary economies and other deflationary measures. The aim of this programme was to bring the French price-level and production costs into line with those in other countries which had depreciated their currencies. The effort to reduce Government expenses persisted during the latter half of 1935 and the first half of 1936. Not only civil servants, but recipients of pensions, bondholders, taxpayers and local government authorities were called upon for further sacrifices. It was hoped by these means to obtain a reduction of 10,800 million francs in the budget deficit, but the reduction realised was actually 6,460 million francs. Budgetary difficulties remained and the Government was forced to borrow, not only by the issue of long-term loans,[1] but also by Treasury bonds the greater part of which were re-discounted at the Bank of France, and by a loan of 3,000 million francs (£40 million) provided by a British banking group in February 1936. The limit of Treasury bonds was successively raised until, by June 1936, the total issues for the year amounted to 22,000 million francs, of which 14,000 million francs had been re-discounted at the Bank of France. New supplementary expenditure had been authorised largely for rearmament, so that in June 1936 the budget deficit was 6,500-7,000 million francs, Treasury commitments to the end of the year were estimated at 7,900 million francs, and repayment in November and December of the London credit referred to above would require another 3,000 million francs. It was therefore evident that the policy of deflation had not restored budgetary balance. Meantime, the total public debt had been increased by 75,000 million francs in four years.[2]

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[1] Loans amounting to 750 million francs for the Post, Telegraph and Telephone Administration, and 1,500 million francs for the State Railways were offered in November 1935.

[2] The perpetual debt had decreased by 44 milliards, debt subject to amortisation had increased by 75 milliards, short- and medium-term debt by 16 milliards to a total of 32 ½ milliards, and floating debt by 20 milliards to a total of 66 milliards. In addition, bonds

Despite the enforcement of lower retail prices for certain products, the general movement of wholesale and retail prices was sharply upward in the latter part of 1935.[1] This upward movement, which was greater than the rise in prices in other countries and therefore accentuated the exchange disequilibrium, was largely due to the maintenance of agricultural subsidies and the reinforcement of quota restrictions on imported foodstuffs.

The general economic situation suffered severely from the continuous pressure of deflation. While production was rising rapidly in other countries, it fell by over 5% in France in 1935. In the first five months of 1936, it increased by 8% as compared with the corresponding months of 1935, but this increase was less than in most other countries and was mainly the result of Government expenditure involving the increased borrowing referred to above. Private enterprise diminished and unemployment increased. By June 1936, the index of industrial share values had fallen to 28.4 as compared with 39.4 in June 1935.

Moreover, increasing popular discontent with the "décrets de misère" had forced certain modifications in their application and finally the elections of May 1936 returned a Government pledged to repeal them and reverse the policy of deflation. Before that Government took office two important crises developed, the one financial and the other industrial. In anticipation of a possible currency devaluation, the flight of capital assumed considerable proportions. In the three months April, May and June, the Bank of France lost gold and foreign assets from its reserves amounting to 11,588 million francs (£154.5 million). Just before the new Government took office in early June, a series of "stay-in strikes" began, which rapidly extended from the industrial suburbs of Paris over the greater part of industrial France. This occupation of the factories, shops, and even theatres, was conducted as an orderly demonstration, apparently spontaneous in origin and outside trade-union leadership.

In the first week or two of the new Parliament, a series of laws was passed conceding the major demands of the strikers — the right of collective bargaining, the forty-hour week, and paid holidays. An agreement negotiated between the trade union and employers' federations conceding wage increases was implemented by a series of local strike settlements and the

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amounting to 2.3 milliards had been issued to provide wheat subsidies and a further 6.2 milliards for the Postal Administration. Conversions had reduced the interest on the funded debt and the decree-laws of July 1935 had made a further reduction; but the new debt was issued at relatively high rates, and the proportion of floating debt caused some concern.

[1] The cost-of-living index fell from 88.1 in the second to 84.4 in the third quarter of 1935, but had recovered to 89.4 in the second quarter of 1936. The wholesale-price index rose from 51.4 in July 1935 to 60.3 in June 1936.

strike movement gradually diminished. Meantime, the Government, after rejecting devaluation as a solution of the financial situation, proceeded to carry through a programme designed to encourage dishoarding and secure the repatriation of refugee capital. The main elements in this programme were measures to register foreign assets (the date of registration being fixed at July 15th), a thorough-going reform of the fiscal system, an issue of short-term bonds in small denominations, lowering of the rediscount rate, measures to control commodity prices, sharp action against currency speculators, certain tax reductions, the granting of new credit facilities to small and medium-sized enterprises and an extended public works programme. The primary object of these measures is the re-establishment of confidence and the encouragement of economic activity in order to secure the release of capital at present hoarded and to stimulate an increased velocity of credit circulation.

In order to overcome immediate budgetary difficulties, arrangements were made with the Bank of France, the net effect of which is to make possible further short-term Treasury borrowing to the amount of 20,000 millions.[1] At the same time steps have been taken to reform the system of public accounts and to co-ordinate public borrowing by various departments for the future. A further measure providing for the reorganisation of the Bank of France was introduced in July.

At the moment of writing, when the new Government has not been in office for two months and its most important preliminary legislation is hardly in operation, it would be premature to attempt any estimate of economic consequences. The first result was an almost immediate lessening of the strain on the franc in the foreign exchange markets. Selling pressure abated, forward premiums declined and in July there was a small return movement of gold to the reserves of the Bank of France. As one result it was possible to lower the re-discount rate rapidly from 6% in May and June to 3% in mid-July. The issue of " baby-bonds " was launched on July 10th, and the first results were described by the Minister of Finance as encouraging. The longer-run consequences of these measures, and of the higher wage-rates and increased government expenditure, cannot yet be estimated.

The rapidity and scale of economic developments in France have somewhat overshadowed events in the other countries of the gold *bloc*. Both the Netherlands and Switzerland have suffered the same consequences of prolonged deflation. The shrinkage of economic activity is reflected not only in business losses and severe unemployment; but also in budgetary difficulties, despite high taxation and economies in certain forms of public expenditure. Interest rates are high and capital is timid. Hoarding persists and the velocity of credit circulation is low.

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[1] The law states that Treasury bills amounting to 22,700 million francs are in circulation (including 3,000 million francs owed to London banks). 13,000 million francs now held by the Bank of France will be replaced by a direct loan from the Bank, leaving about 10,000 million francs in circulation. The limit of issue is fixed at 20,000 million francs, leaving a margin of 10,000 million francs for new issues. The Bank of France will, in addition, open a special credit of 10,000 million francs.

These conditions are too well known to warrant any exhaustive survey here; but certain illustrations may perhaps be given. The following table summarises some of the main statistics available in the Netherlands:

Economic Indices in the Netherlands.

Quarter	Imports Florins	Exports (000,000's)	Unemployment[a] %	Production[a] (1929=100)	Share prices[a] (1929=100)
1935: I	226	160	37.0	67.3	28.8
II	230	159	32.9	67.3	28.4
III	228	174	35.4	60.5	25.5
IV	253	182	40.7	69.8	29.2
1936: I	233	156	38.5	69.8	33.1
II	234	163	34.2	67.9	32.5

[a] Index for last month of the quarter.

These indices bear witness to the severity of the depression through which the Netherlands has passed. The external trade balance has been rendered less passive in recent years by a severe contraction of imports, but the value of exports is still falling and the measures taken to reduce imports have maintained a high cost of living. There has been a great effort at industrial rationalisation: production has increased, costs have been reduced, yet unemployment continues to increase. A substantial increase in rubber prices has somewhat eased the situation in the Netherlands Indies, but economic activity is reduced and budgetary subsidies are still necessary though dividends are increasing.

The monetary situation remains technically strong. In each successive exchange crisis, gold has been lost from the central banking reserves; but the crises have been met by orthodox gold-standard measures such as the raising of the discount rate and, after each crisis, some of the gold losses have been recovered. The financial position as revealed by the next table is strong, since there is no evidence of internal banking stringency or excessive Government borrowing such as would be reflected in increased discounts and advances, nor is there much hoarding of banknotes. The evidence of contraction is, however, clear and would probably be clearer if the velocity of circulation of bank deposits were taken into account.

Monetary Indices in the Netherlands.

Florins (000,000's).

End of quarter		Gold reserve	Discounts and advances	Notes in circulation	Deposits	Bank rate*
1935:	I	813	154	848	163	2 ½
	II	627	183	809	48	4
	III	536	278	819	42	6
	IV	643	173	809	50	3 ½
1936:	I	714	152	781	121	2 ½
	II	594	191	767	61	3 ½

* The movements of the bank rate in the second quarter of 1936 were: May 30th, raised from 2 ½ to 3 ½ %; June 4th, 4 ½ %; June 25th, 4 %; June 30th, 3 ½ %. It was further reduced to 3 % on July 7th.

The technical position of the Swiss National Bank is also strong, though it has parted with gold to the value of more than 1,250 million Swiss francs since June 1932. Gold holdings at the end of June 1936 were 85.7 % of the totals of note circulation and other sight liabilities of the National Bank. There has, however, been a continuous contraction both of note issues and of commercial bank deposits.

Monetary Indices in Switzerland.

Swiss francs (000,000's).

End of quarter		Gold reserve	Discounts and advances	Notes in circulation	Deposits (Swiss National Bank)	Bank rate
1935:	I	1,719	105	1,358	481	2
	II	1,206	304	1,307	313	2 ½
	III	1,393	205	1,317	333	2 ½
	IV	1,396	292	1,366	398	2 ½
1936:	I	1,513	152	1,319	411	2 ½
	II	1,410	190	1,301	340	2 ½

Unemployment is still increasing. In April 1936, the percentage registered was 18.9 compared with 16.8 a year earlier. Imports and exports are still being reduced. In the first half of 1936, imports totalled 542 million Swiss francs and exports 396 million Swiss francs as compared with 622 million Swiss francs and 402 million Swiss francs respectively in the first half of 1935. No index of production is available, but the quantity of goods transported by rail fell from 6,395,000 tons in the first half of 1935 to 5,718,000 tons in the first half of 1936, partly because of the decline in both direct and transit traffic with Italy. This decline in railway traffic may be used to illustrate the burden thrown on the public finances by reduced economic activity. Despite a reduction of expenses, the deficit on the State railways rose considerably, receipts having fallen in this period from 148.4 millions Swiss francs to 134.6 million Swiss francs.

Reference has already been made to the imposition of exchange control by Poland in April 1936 and to the import control that followed in May. On June 27th, a further step was taken by the declaration of a transfer moratorium on foreign debt payments — public and private. Debtors will pay the amounts due in zloty to a blocked account in the National Bank and these amounts will be available for the purchase of Polish exports.

AN UPWARD TREND.

The international economic situation in the summer of 1936, as revealed by the facts and figures surveyed in this volume, does not lend itself readily to any brief summary. Under the stresses and strains of worldwide depression and independent national efforts at reconstruction, the former international economic system suffered great damage, much of which has not yet been repaired. It has not yet proved possible, for example, to re-establish an international monetary standard. There has for more than a year been a great measure of exchange stability among the principal trading currencies; but the severe strain imposed on the remaining gold-standard currencies during the second quarter of 1936, together with the maintenance of exchange restrictions in the great majority of European countries, is sufficient evidence that readjustment to the new currency levels is not yet complete. The recovery of international trade still lags seriously behind that of national production and is impeded by restrictions of great complexity and effectiveness. These restrictions enable Governments, if they so wish, to direct trade and indeed all external economic and financial transactions in accordance with national policy, and a new and incalculable factor is thus introduced into any estimate of economic developments.

One result of increased State intervention has been to obscure the meaning of certain important statistical measurements, as well as to make less certain the reactions of the economic system to the situation disclosed by such measurements. When indices of prices or totals of imports and exports were merely the registration of the aggregate results of a multitude of transactions carried through for the most part by individual initiative and measured in currency units that were definitely known and fixed, their meaning could be analysed with fair precision. At the present time, it is sometimes difficult to know exactly what they mean. For example, in many European countries, differential exchange rates are used for imports from or exports to other countries, the rates varying, not only as between countries, but also as between different classes of commodities. The totals of imports and exports are given as equal to a certain amount in national currency, but it is uncertain at what average rate of exchange these totals should be reckoned. The relation between imports and exports, or between import and export prices, and calculations of the barter terms of trade are therefore subject to an unknown margin of error.

At the same time, it is less possible to interpret what the economic response to a given situation is likely to be. Psychological and political factors are more important than they were even a few years ago. Thus the raising of the discount rate of a central bank was formerly designed partly to attract short-term capital to the financial centre in question; but it has recently been interpreted in many cases as indicating financial difficulties and has therefore sometimes served as a signal for capital to be exported instead of imported. In the same way, a rise in national prices cannot be regarded as indicating the probability that increased imports will be attracted; on the contrary, it may well be the result of increased import restrictions. Examples of this sort might be multiplied.

Political influences on economic development were never so strong and so unpredictable as at present. As this *Survey* goes to press, economic activity in Spain is at a standstill because of civil conflict, and the lack of statistical information renders impossible any account of the economic situation in Italy.

Nevertheless, over a great part of the world, the signs of accelerating economic recovery are unmistakable. Increasing production, falling unemployment, a greater amount of investment, a rising velocity of credit circulation and even some recovery of international trade are characteristic of all but a few countries. The chief exceptions to this rule are certain European countries where high exchange rates maintain pressures on the balances of payments and cause domestic contraction. Doubts may reasonably be entertained concerning the solidity of the recovery in some countries where monetary expansion has been pushed to great lengths on the basis of somewhat slender resources; but the general upward trend in the world as a whole is fundamentally based on expansion of economic activity in the great creditor countries such as the United Kingdom and the United States.

As this expansion proceeds, it attracts short-term capital to those countries. The chief source from which such capital has been attracted in recent months has been the countries of the gold *bloc*. Gold has flowed in great quantities to the United States and the United Kingdom, much of it providing a wider basis for further monetary expansion. In addition to the capital flight from Europe, there has been some accumulation of short-term assets, particularly in London, as a result of increased imports from the agricultural-exporting countries, not yet compensated by increased exports or new lending to those countries.

There is therefore some lack of balance in the present situation comparable in many respects with that which developed during the recovery from the post-war crisis of 1920/21. As then, the normal play of economic forces is beginning to correct this unbalanced situation by stimulating increased trade within the area of assured exchange stability and relatively free trade. Recovery is proceeding rapidly in the British Dominions and most raw-material producing areas. It is most delayed in those parts of Europe where trade restrictions are most effective and financial credit is most hampered by exchange uncertainty, restrictions and default.

Apart from the immediate situation, account must be taken, finally, of the slow but powerful upward pressure exerted by the increasing production of gold. In 1935, the quantity of gold produced in the world (exclusive of that produced in the Union of Soviet Socialist Republics) was almost a third greater than in 1929. If the estimated production in the Union of Soviet Socialist Republics is included, production was about 50% greater in 1935 than in 1929. In terms of the new depreciated currencies, the value of this production was perhaps 150% greater than that of 1929. Moreover, increased output in South Africa is expected, so that the actual quantity produced will continue to increase. Every revaluation of existing gold reserves increases the effectiveness of the existing gold stock as a basis for monetary expansion, and greater elasticity has been introduced in the reserve requirements of many monetary systems. Though political uncertainty, trade restrictions and the possibility of more effective monetary management than in the past may hinder this accumulation of monetary reserves from exercising its full influence in the immediate future, past experience shows that such an accumulation of gold in the long run exercises a very powerful if gradual upward pressure upon price-levels and economic activity. At the present time, the new gold produced is finding its way mainly to the United States and the United Kingdom, though central bank reserves are increasing also in many other countries, notably Belgium and South Africa.[1] Its effect is therefore likely to reinforce the monetary expansion that is already evident in those countries.

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[1] In June 1936 compared with June 1935, central bank reserves were higher in Brazil, Bulgaria, Canada, Colombia, Estonia, India, Irish Free State, Japan, Latvia, Lithuania, New Zealand, Norway, Portugal, Sweden, the United Kingdom, the United States of America, the Union of Soviet Socialist Republics and Yugoslavia.

CHRONOLOGICAL LIST OF ECONOMIC EVENTS

1935

AUGUST

1. *France-Turkey:* Commercial Agreement signed.

Germany-Belgo-Luxemburg Customs Union: New Payments Agreement comes into force.

Italy: Monopoly established for the purchase of foreign raw materials.

3. *Netherlands:* Discount rate lowered from 6% to 5%.

Roumania-United Kingdom: Payments Agreement concluded.

4. *U.S.S.R.:* Trusts and State enterprises authorised to negotiate directly with foreign firms.

5. *India:* 3% local loan issued for £11,250,000 for nineteen years at 96½.

Italy: Azienda Carboneri Italiani created to increase coal production.

6. *France-Turkey:* Clearing Agreement concluded.

7. *Italy-Roumania:* Payments Agreement concluded.

International: International Sugar Committee constituted.

8. *France:* Further decree-laws designed to protect the franc adopted. Discount rate lowered from 3½% to 3%.

Greece: Payment announced of 35% of interest due on English and American *tranches* of 6% Stabilisation Loan, 1928.

Spain: Rate of interest on deposits in commercial and savings banks lowered by ½%.

12. *Italy:* Discount rate raised from 3½ to 4½%.

13. *Spain:* Insurance instituted against exchange risks in respect of French, British, Netherlands and Swiss currencies.

14. *U.S.A.:* Social Security Act signed.
Government buys 25 million ounces of silver.

15. *Roumania-United Kingdom:* Debt Agreement comes into operation.

16. *Italy:* Industrial union instituted for the manufacture of cellulose and paper.

Spain: Government decides to open credit of 4,000,000 pesetas to create a National Bank of Agriculture.

20. *Ethiopia:* Exchange control instituted.

AUGUST 1935

22. *Denmark:* Discount rate raised from $2^{1}/_{2}$% to $3^{1}/_{2}$%.

23. *U.S.A.:* Banking Act, 1935, signed.

24. *Canada:* Social Credit Party wins sweeping victory in Alberta.

26. *Belgium-U.S.S.R.:* Diplomatic relations resumed.

U.S.A.: Public Utilities Holding Company Act of 1935 signed.

28. *Germany:* Increases in agricultural prices forbidden.

Italy: Government decrees compulsory cession of all foreign credits in exchange for 5% Treasury bonds.

30. *U.S.A.:* Frazier-Lemke Farm Mortgage Act signed.

31. *Ethiopia:* Oil concession announced to the agent of an American syndicate.

U.S.A.: Neutrality Resolution signed.

SEPTEMBER

1. *France:* Future markets for wheat reopened.

Germany-Czechoslovakia: Coal Agreement enters into force.

Greece: Pays 35% interest due on 5% 1917 Loan.

2. *France:* Decree-law issued concerning colonial credit.

3. *Germany:* Price agreement among tube-makers.

4. *Roumania-Switzerland:* Clearing Agreement signed.

5. *Belgium-U.S.S.R.:* Temporary Commercial Agreement signed.

9. *Italy:* Discount rate raised from $4^{1}/_{2}$% to 5%.

International: Nitrate Agreement renewed for three years.

10. *Spain:* Government authorises railway loan of 50,000,000 pesetas.

12. *Germany-Roumania:* Payments Agreement concluded.

15. *Netherlands:* Discount rate raised from 5% to 6%.

18. *Italy:* 5% War Loan issued.
General Commissariat created for the manufacture of munitions of war.

24. *International:* Rubber production quotas for last quarter of year fixed at 60% of base period.

25. *Canada:* Wheat Board begins operations.

France: Match monopoly transferred to Caisse d'amortissement.

27. *U.S.S.R.:* Food-ration cards abolished.

SEPTEMBER 1935

28. *Salvador:* Exchange control abolished.

Yugoslavia: Prohibition of currency and exchange exports.

30. *Poland:* Moratorium for agricultural mortgage debts until January 1936.

U.S.S.R.: Pays last instalment of commercial debt to Germany opened in 1933.

OCTOBER

1. *France:* Decree-laws issued concerning agricultural credit.

Germany: Shortages of fat and meat reported.

Italy: Decree authorises loan of 70,000,000 lire for Albanian economic development.

Lithuania: Exchange control instituted.

2. *Italy-Ethiopia:* Italian troops cross northern frontier.

3. *International:* Tin production quota raised to 70%, retroactive as from July 1st, 1935.

4. *Italy-Uruguay:* Commercial Agreement signed.

5. *U.S.A.:* Arms embargo proclaimed.

6. *Italy-Spain:* Commercial Agreement signed.

7. *Ecuador:* Exchange control abolished.

8. *Germany-U.S.A.:* Commercial Treaty, omitting most-favoured-nation clause, renewed.

9. *Lithuania:* Decree issued regulating production and trade in flax.

Peru: Budget includes provision for partial resumption of foreign debt service.

U.S.A.: Import-Export Bank refuses further credits for Italian trade.

11. *British Malaya:* Tin quota fixed at 54% for last quarter of year.

International: Arms embargo applied against Italy by States Members of League of Nations.

12. *Netherlands:* Prohibits petrol exports.

14. *Argentine:* Local public works loan issued for 50,000,000 pesos at 4½%.

International: Financial sanctions applied against Italy.

16. *Greece:* Pays 35% of interest due on 3% 1893 Loan.

Netherlands: Discount rate lowered from 6% to 5%.

OCTOBER 1935

18. *Germany:* Law passed authorising the reorganisation of State banks.

19. *International:* Economic sanctions against Italy adopted.

20. *France-Roumania:* Payments Agreement concluded.

21. *Danzig:* Discount rate lowered from 6% to 5%.

22. *Argentine:* Conversion Loan issued at 4¹/₂%.

Italy: Decree issued directing compulsory export of silk.

International: International Tin Committee raises production quota to 80% as from October 1st, 1935.

24. *China:* Sharp fall in exchange value of Chinese dollars.

Italy: Decree issued creating a control office for liquid fuels.

28. *Afghanistan:* Law empowers Afghan Bank to issue banknotes.

31. *France:* Decree issued regulating zinc and lead mining.

NOVEMBER

1. *U.S.A.:* Presidential statement that trade with belligerents can be conducted only at traders' risk.

2. *Italy:* Prohibition of metal exports.

3. *Germany-Poland:* Commercial Agreement signed.

Netherlands: Discount rate lowered from 4¹/₂% to 4%.

4. *China:* Decree nationalising silver stocks and instituting exchange stabilisation.

Italy: Restrictions imposed upon the consumption of meat.

9. *Hong-Kong:* Embargo imposed on silver exports.

Italy: Petrol monopoly comes into force.

12. *Germany:* Decree issued controlling raw-material and food exports.

13. *Yugoslavia:* Decree issued placing cartels under State control.

14. *France:* Discount rate raised from 3% to 4%.

United Kingdom: General Election.

15. *Argentine:* Control of exchange rate transferred to Central Bank.

Germany: Export of war materials prohibited.

U.S.S.R.: Torgsin abolished and rouble exchange rate fixed at 3 French francs.

16. *Italy:* Importation of 500 and 1,000 lire banknotes permitted under strict conditions.

NOVEMBER 1935

18. *International:* Economic sanctions against Italy become effective. Italy decrees counter-sanctions, and gold collection.

20. *Italy:* Monopoly created for foreign gold purchases.

Germany-Poland: Commercial and Clearing Agreements signed.

21. *France:* Discount rate raised from 4 % to 5 %.

23. *International:* Lire exchange rate no longer quoted officially on principal money markets.

25. *France:* Discount rate raised from 5 % to 6 %.

26. *Brazil:* Debt service of Bahia suspended.

Hungary: Foreign-exchange premiums and surcharges modified.

Roumania: New system of exchange control and foreign trade regulation adopted.

27. *Austria-Hungary:* Clearing Agreement enters into force.

New Zealand: Elections result in victory for Labour Party.

28. *Italy:* The price of gold is raised from 12.63 to 15.45 lire per gramme.

Poland: Decree empowers Government to dissolve cartels.

30. *Germany:* Increased duties on Diesel oil come into force.

DECEMBER

1. *Union of South Africa-Germany:* Commercial Treaty extended for a year.

Austria: Repays Spanish *tranche* of 1923-1943 Loan.

2. *U.S.A.:* Issue of \$450,000,000 twelve-year Treasury bonds at $2^3/_4$ % and \$450,000,000 five-year at $1^1/_2$ %.

3. *Czechoslovakia:* Export of banknotes above 50 crowns prohibited.

4. *United Kingdom:* Issue of £200,000,000 Treasury bonds at $2^1/_2$ % and £100,000,000 at 1 %.

6. *Hong-Kong:* Dollar devalued and exchange control established.

International: Tin Committee raises production quota to 90 % for the first quarter of 1936.

9. *International:* Sharp fall in price of silver on the principal exchanges. Production quota for rubber raised to 90 % for the first quarter of 1936.

10. *Japan-Manchuria:* Exchange regulation comes into force.

International: No silver price quoted on London market.

12. *U.S.A.:* Secretary of Treasury announces modified silver-buying policy.

DECEMBER 1935

14. *Germany:* Moratorium on mortgage debts extended for three years.

18. *Denmark:* New Monetary Law adopted.

22. *Hungary-Czechoslovakia:* Compensation and Payments Agreements signed.

Spain-France: Commercial Agreement signed.

28. *Uruguay-U.S.S.R.:* Uruguay breaks off diplomatic relations.

31. *France:* Discount rate lowered from 6 % to 5 %.

1936

JANUARY

1. *Belgium:* Superphosphates Board established.

Canada-U.S.A.: New Trade Agreement comes into force.

Czechoslovakia: Paper Cartel renewed for six years.
Glass-bottle Cartel becomes effective.

Germany: Law liquidating specialised savings banks.
Law regulating manufacture and sale of textile products enters into force.

U.S.S.R.: Exchange rate of rouble becomes effective at 3 French francs for tourist purchases.

2. *Argentine:* Exchange rates fixed by Central Bank, tenders for exchange abolished.

Germany: Decree regulates exchange allowed to emigrants.

U.S.S.R.: Forbids purchases of goods from Uruguay.

6. *France-U.S.S.R.:* Commercial Agreement prolonged for a year.

U.S.A.: Agricultural Administration Act declared unconstitutional by Supreme Court.

7. *Belgium:* Order issued regulating mortgage credit.

France-Roumania: Commercial Agreement signed.

U.S.A.-Mexico: Silver Agreement concluded.

8. *Hungary-Roumania:* Payments Agreement signed.

9. *U.S.A.-Switzerland:* Commercial Agreement signed.

10. *France:* Discount rate lowered from 5 % to 4 %.

13. *Italy:* Bank of Italy buys Dawes and Young loan coupons payable in Italy.

Spain-United Kingdom: Clearing Agreement enters into force.

14. *Belgium:* First issue (50,000,000 francs) of Treasury certificates by l'Institut de réescompte et de garantie.

JANUARY 1936

15. *Netherlands:* Discount rate lowered from $3^1/_2$% to 3%.

16. *Chile-France:* Commercial Agreement signed.

20. *Belgium:* Judicial enquiry dismisses appeal against devaluation.

Germany: Railway charges on merchandise increased.

U.S.S.R.: Forbids exports to countries where exchange control prevents regular payment.

21. *Hungary:* Law differentiating between national and foreign holders of Hungarian bonds: importation of bonds forbidden.

Netherlands: Loan issued for 104,000,000 florins, 4% at 99.

24. *France:* Constitution of new Government.

U.S.A.: President Roosevelt vetoes the Soldiers' Bonus Bill.

International: North Atlantic Shipping Conference raises passenger fares.

25. *France-Yugoslavia:* Debt Agreement signed.

27. *U.S.A.:* Veterans' Bonus passed over Presidential veto.

29. *Austria:* "Live-claims" Agreement signed with Committee of Foreign Creditors.

30. *New Zealand:* Introduction of forty-hour week and standard wage rate for relief workers.

United Kingdom: Loan issued, £27,000,000, $2^1/_2$% at 97, for railway development.

U.S.A.: Stabilisation Fund extended for one year.

31. *Germany-Denmark:* Commercial Treaty signed.

FEBRUARY

1. *Czechoslovakia:* Chocolate Cartel constituted.

Germany-Switzerland: Supplementary Commercial Agreement signed.

Greece: Pays 35% of coupon due on 6% Stabilisation Loan, 1928.

Hungary-United Kingdom: Payments Agreement on debt arrears enters into force.

U.S.S.R.: Torgsin shops closed.

International: Nitrate Price Agreement reached between international cartel and Japanese producers.

2. *Brazil:* Industrial monopolies prohibited.

4. *Netherlands:* Discount rate lowered from 3% to $2^1/_2$%.

5. *United Kingdom:* Silver futures again quoted in London.

FEBRUARY 1936

7. *Germany-Poland:* Poland restricts railway traffic in Polish Corridor.

France: Discount rate lowered from 4% to $3^{1}/_{2}$%.

8. *Italy:* Five-lire silver coins replaced by banknotes.

9. *Czechoslovakia:* Petrol Cartel formed.

U.S.A.: Gold exports to France and the Netherlands.

11. *U.S.A.:* President's call for Pan-American Peace Conference.

15. *U.S.A.-Switzerland:* Commercial Agreement enters into force.

17. *Belgium:* 7% Foreign Stabilisation Loan of 203,300,000 francs converted to 4%.

France: Treasury loan £40,000,000 at 3% for nine months issued in London.

France United-Kingdom: London banks grant a nine-months credit of £40,000,000 at 3% to the French Government.

Roumania-U.S.S.R.: Commercial Agreement signed.

U.S.A.: Supreme Court validates Tennessee Valley Authority.

19. *International:* International Tin Committee fixes quota for second quarter of 1936 at 85%.

20. *Brazil-United Kingdom:* Debt Arrears Agreement signed.

Danzig: Exchange control modified.

Germany: Sixth Standstill Agreement concluded.

22. *Paraguay:* Decree providing for creation of a central bank.

24. *China:* Resumption of debt service on Tientsin-Pukow Railway.

25. *Yugoslavia:* Foreign currency assets converted to dinars.

26. *Japan:* Military *coup d'état.*

29. *U.S.A.:* President Roosevelt signs the Neutrality Resolution.

U.S.S.R.: Decree extends valuation of rouble at 3 French francs from tourist to commercial and financial payments, as from April 1st, 1936.

MARCH

1. *U.S.A.:* President signed Soil Conservation Act and Domestic Allotment Act.

2. *U.S.A.:* Bonds issued amounting to $1,809,000,000.

4. *Canada-U.S.A.:* Silver Purchase Agreement signed.

Poland-U.S.S.R.: Quota agreement signed.

5. *France:* Finance Commission authorises a credit to the U.S.S.R. amounting to 1,000,000,000 francs.

MARCH 1936

7. *Germany:* Denunciation of the Treaty of Locarno.

9. *Germany-Spain:* Commercial and Payments Agreements signed.

12. *Australia:* Issue of £1,000,000 Treasury bills, $1^{3}/_{4}$%.

France: Senate ratifies pact with U.S.S.R.

17. *Spain:* Export of banknotes prohibited.

18. *U.S.A.:* Presidential Message to Congress recommends further appropriation of $1,500,000,000 for unemployment relief.

19. *Switzerland:* 4 % Federal Loan of 135,000,000 francs issued at 95.35.

20. *Italy:* Special tourist lire created.

21. *France:* Law passed raising the limit of Treasury bond issues by 6,000,000,000 francs.

Germany: Reich returns to Vereinigte Stahlwerke the majority of its shares.

24. *Netherlands:* Issue of 40,000,000 florins Treasury bonds 3 % for one year and $3^{1}/_{2}$% for five years.

25. *Germany-U.S.S.R.:* Economic conversations broken off.

26. *Austria:* Disclosure of financial difficulties in the Phœnix Assurance Corporation.

29. *France:* Discount rate raised from $3^{1}/_{2}$% to 5 %.

APRIL

1. *Austria:* Establishment of compulsory Federal service.

Bolivia: Stabilisation of exchange rate.

Germany-Czechoslovakia: Coal Agreement enters into force.

2. *Germany:* Unification of exchange regulations in respect of emigration to Palestine.

Greece-Roumania: Payments Agreement signed.

3. *Iraq:* Repurchase of railways from United Kingdom.

6. *Netherlands Indies:* Rubber export duty raised from 33 to 34 florins per 100 kg.

Poland: Issue of first series of 4 % gold loan.

8. *New Zealand:* Act passed nationalising Reserve Bank.

Yugoslavia: Import control established.

10. *Greece-Hungary:* Payments Agreement enters into force.

11. *Spain:* Issue of 500 million pesetas 4 % four-year Treasury bonds.

18. *Netherlands Indies:* Rubber export duty raised to 35 florins per 100 kg.

23. *International:* Agreement reached between French, German, Belgian and Japanese tube manufacturers.

25. *Bulgaria:* New regulations issued concerning import and export regulation.

26. *Poland:* Exchange control established.

27. *Germany:* General Goering appointed Commissioner of Foreign Exchange and Raw Materials.

28. *International:* Rubber production fixed at 65% of base period for second half of 1936.

29. *Germany-U.S.S.R.:* Commercial Agreement signed.

30. *Germany:* Steel Cartel Agreement renewed till January 31st, 1940.

Germany-Manchuria: Commercial Agreement signed.

MAY

1. *Denmark:* Reorganisation of National Bank.

Ethiopia: Emperor leaves Addis-Ababa.

2. *Egypt:* Agreement concluded with Suez Canal Company.

Poland-United Kingdom: Payments Agreement signed.

Spain: Exchange control reinforced.

3. *France:* Election results in victory for Popular Front.

4. *New Zealand:* Loan of £4,000,000 sterling at 3%, issued in London at $98^1/_2$.

U.S.A.: Weekly bond issues fixed at $100,000,000.

5. *Ethiopia:* Italian troops enter Addis-Ababa.

6. *Argentine-United Kingdom:* Bilateral denunciation of Commercial Agreement.

France-United States: Commercial Treaty signed.

Japan: Price of gold raised from 3.10 to 3.50 yen per gramme.

7. *France:* Discount rate raised from 5% to 6%.

8. *Czechoslovakia:* Regulation of gold transactions.

Poland: Import control established.

10. *Germany-Poland:* Temporary Agreement concerning railway traffic in Polish Corridor.

11. *Netherlands Indies:* Rubber export duty lowered to 34 florins.

Poland: Denunciation of the Commercial Agreement with France.

MAY 1936

14. *Austria:* Cabinet reconstructed.

Roumania: Export of domestic gold authorised.

15. *Austria-Czechoslovakia:* Payments Agreements enter into force.

17. *Spain:* Export of banknotes limited to 500 pesetas.

18. *China-U.S.A.:* Agreement concluded whereby United States continues to buy Chinese silver.

Italy: Discount rate lowered from 5 to 4 1/2%.

20. *Colombia-U.S.A.:* Commercial Treaty enters into force.

Netherlands Indies: Rubber export duty raised to 35 florins.

Roumania-United Kingdom: Payments Agreement concluded.

22. *U.S.A.:* Import duties on cotton goods raised by 40%.

23. *Australia:* Introduces licensing system for U.S.A. and Japanese imports.

Germany-Netherlands: Transfer Agreement concluded.

24. *Belgium:* Elections return Socialists as strongest party.

25. *Ethiopia:* Italian Bank of Ethiopia opens.

25. *U.S.A.:* Supreme Court declares Municipal Bankruptcy Act of 1934 unconstitutional.

29. *Spain:* Bank of Spain advances to Treasury of 25,000,000 pesetas for exchange control.

U.S.A.: Commodity Exchange Act passed.

30. *Netherlands:* Discount rate raised from 2 1/2% to 3 1/2%.

JUNE

1. *France:* Stay-in strike movement extends.

Italy: Statute regulating the political and administrative organisation of Italian East Africa adopted.

United Kingdom-Roumania: New Payments Agreement enters into force.

2-19. *Belgium:* Numerous strikes occurred in different industries.

2. *Canada:* Loan issued $207,000,000: $20,000,000 of thirty-year 3 1/4% bonds at 99, the remaining $187,000,000 representing a conversion of previous issues.

U.S.A.: Minimum Wages Act of the State of New York declared unconstitutional.

New loan issues, $600,000,000 Treasury bonds at 2 3/4% and $400,000,000 at 1 3/8%.

JUNE 1936

4. *France:* New Ministry takes office under M. Léon Blum.

Netherlands: Discount rate raised from 3½% to 4½%.

8. *France:* Agreement signed between Confédération générale de la production française et la Confédération générale du travail, providing for higher wages, paid holidays and the forty-hour week. Stay-in strike movement begins to recede.

11. *Germany-Iran:* Commercial Agreement enters into force.

Italy: Decree issued reorganising the Bank of Italy.

U.S.A.: Anti-dumping duties become effective on imports from Germany.

14. *Belgium:* Second van Zeeland Ministry constituted.

Yugoslavia: Decree granting preference to German imports.

15. *U.S.A.:* Bonus payments amounting to $1,900,000,000 paid through Post Offices.

President Roosevelt signs the Commodity Exchange Control Act.

17. *Canada:* Supreme Court declares unconstitutional many Acts passed in 1935.

18. *Belgium:* Agreement between workers' and employers' associations providing for higher wages, paid holidays and the forty-hour week.

19. *Denmark-United Kingdom:* Commercial Treaty of 1933 prolonged for an indefinite period.

France: Chamber fixes the maximum total of Treasury bonds for 1936 at 20 milliard francs, and revises Statutes of Bank of France.

20. *U.S.A.:* Arms and financial embargoes against Ethiopia and Italy raised.

21. *Germany-Italy:* Commercial Agreement signed.

22. *Germany:* Loan issued, RM. 700,000,000, 4½% at 98¾.

Switzerland: Promulgation of measures to restrict exchange speculation.

23. *France:* Discount rate lowered from 6% to 5%.

Senate adopts convention concluded between the State and the Bank of France.

25. *France:* Discount rate lowered from 5% to 4%.

Japan: Restriction imposed on imports from Australia.

Netherlands: Discount rate lowered from 4½% to 4%.

JUNE 1936

26. *Belgium:* Chamber passes laws providing for paid holidays and the forty-hour week.

Germany: Transfer moratorium on external debt payments prolonged for six months.

Poland: Transfer moratorium declared.

27. *International:* International Tin Committee raises quota from 85% to 90% for last quarter of 1936.

29. *Netherlands:* Discount rate lowered from 4% to $3^1/_2$%.

JULY

1. *Australia-U.S.A.:* The U.S.A. withdraws from Australia the most-favoured-nation treatment accorded by the reciprocal tariff treaties.

Austria-Turkey: Clearing Agreement enters into force.

Italy: Import-control system reorganised.

Japan-Netherlands: Maritime Agreement signed.

Lithuania: Discount rate lowered from 6% to 5%.

Roumania: Gold price raised from 111.111 lei to 153.333 lei per kg.

U.S.S.R.: Conversion of domestic loans amounting to 18,000,000,000 roubles to 4%. New twenty-year loan of 4,000,000,000 roubles issued at 4%.

2. *Denmark:* Conversion loan £1,900,000 issued in London, 4% at 99.

Greece: New import restrictions imposed.

6. *Bulgaria-France:* Payments Agreement signed.

Germany-Switzerland: Payments Agreement signed.

International: Bolivia renounces its right to an increased quota of tin production.

7. *Netherlands:* Discount rate reduced from $3^1/_2$% to 3%.

9. *France:* Discount rate reduced from 4% to 3%.

U.S.A.-U.S.S.R.: Commercial Agreement prolonged for a year.

10. *France:* Issue of six-months Treasury bonds at $3^1/_2$%, and one-year at 4%.

11. *Germany-Austria:* Political Agreement announced.

15. *Bulgaria-Switzerland:* Clearing Agreement comes into force.

U.S.A.: Federal Reserve Board raises reserve requirements by 50%.

International: Sanctions against Italy are raised.

17. *Spain:* Civil war breaks out.

19. *Spain:* Decree closing Stock Exchanges and declaring banking moratorium until July 26th.

20. *Spain:* Peseta quotations suspended in Paris.

22. *U.S.A.:* Domestic price of copper raised from 9.50 to 9.75 cents per lb.

23. *Argentine-United Kingdom:* Commercial Agreement signed.

France: Law passed reorganising the Bank of France.

26. *International:* Negotiations break down between representatives of International Tin Committee and Siamese producers.

28. *Germany-Lithuania:* Commercial Agreement signed.

Spain: Banking moratorium prolonged until August 2nd.

30. *Germany-Italy:* Agreement concluded regarding payment of interest of Dawes and Young loans.

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